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THE ATLANTIC REGION OF CANADA ECONOMIC DEVELOPMENT STRATEGY FOR THE EIGHTIES



**Government
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**Atlantic
Development
Council
Canada**

**Conseil de
développement de la
région de l'Atlantique
Canada**

NOVEMBER 1978



Atlantic Development
Council

Office of the Chairman

Conseil de développement
de la région de l'Atlantique

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Ashley Building,
Peet Street,
St. John's, Newfoundland,
A1B 2C9.

September , 1978.

The Honourable Marcel Lessard, P.C., M.P.,
Minister of Regional Economic Expansion,
House of Commons,
Ottawa, Ontario.

Dear Mr. Lessard:

I have the honour of submitting to you, on behalf
of the Atlantic Development Council Canada, and through you,
we hope, to other concerned readers, our review of the
economic condition of the Atlantic Region of Canada and
our proposals for an economic development strategy for the
Region through the eighties.

Yours sincerely,

Original signed by
D. H. McDougall

Donald H. McDougall,
Chairman.

Enclosure

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PREFACE

Towards the end of the nineteen-sixties the Government of Canada undertook in collaboration with the provinces a major new effort to alleviate regional economic disparities in Canada, consolidating earlier programs and adding some new program features.

This effort gave rise to the creation of the Department of Regional Economic Expansion (DREE). Among the earlier organizations whose commitments were assumed by DREE was the Atlantic Development Board. The advisory role for which the Atlantic Development Board had been responsible was transferred to the Atlantic Development Council, which was established under the same legislation establishing DREE on April 1, 1969.

The function of the Council as given in Section 13 of the DREE Act is "to advise the Minister, in respect of the Atlantic Region, on matters to which the duties, powers and functions of the Minister extend and; in particular, to give consideration to and make reports and recommendations to the Minister on:

- (a) plans, programs and proposals for fostering the economic expansion and social adjustment of the Atlantic Region;

- (b) the feasibility of particular programs and projects and the contribution those programs and projects will make to the economic expansion and social adjustment of the Atlantic Region; and
- (c) such other matters, relating to the duties and functions of the Minister under this Act in respect of the Atlantic Region, as the Minister may refer to the Council for consideration".

In 1971 the Atlantic Development Council published "A Strategy for the Economic Development of the Atlantic Region, 1971-81", because it felt that the program for economic expansion and social adjustment in the Region should be carried out "in accordance with a comprehensive overall strategy which establishes objectives and targets and indicates the major policies, approaches and programs through which they can be achieved".

Since there was no formal government commitment to the targets recommended by the Council in 1971 (nor any sign since then of adopting others), the Council has been engaged in the interval not in refining its strategy, but rather in monitoring the economic state of the Region and formulating advice on specific issues and proposals and periodically on regional economic issues in general. Although there is much evidence of substantial support by both levels of government for the major approaches recommended by the Council in 1971, the Council has observed that, in its overriding objective of

"self-sustaining growth for the Region, and not a system which relies on the continuing infusion of transfer and support-type payments",

the joint efforts of federal and provincial regional development programs have not succeeded in reducing the degree of dependency of the Region on these payments. Instead, the degree of dependency continues to increase. For the Atlantic Region as a whole, combined federal transfer payments to provincial governments and persons rose from 20.3% of gross provincial expenditures in 1970 to 26.4% in 1976, compared with 7.7% and 9.2% respectively, for the rest of Canada (see Chapter 1, Table 15).

The Council is convinced of the continuing validity of its overriding objective of self-sustaining growth set in 1971. It regards reduction in the degree of dependency to be a valid, if elementary, test of the effectiveness of regional economic expansion programs being applied. It is not the Council's view, however, that the measures undertaken have been unsuited to the objective, but rather that in their nature, mix and intensity, and in the complexities of Canadian and world economic circumstances, they have not provided the solution to regional economic disparities as known in the Atlantic Region. In its 1976 publication "The New Approach", DREE acknowledged from its 1973-74 policy review that "existing programs were often too limited in scope and tended to be oriented too much toward the problems rather than the potential of an area".

While the new approach was to be oriented to "development opportunities" and would be limited in application to opportunities affecting geographic areas where economic activity was lagging, "general development agreements" (GDA's) were made available to every province. As the then DREE Minister had explained it to the House of Commons Standing Committee on Regional Development on March 28, 1974:

"There is very deliberately no formula in the sense of saying one province will get so much, another one will get so much. The criterion really is the number of viable, worthwhile projects that come forward. A good deal will depend upon the initiatives taken with regard to these major development opportunities to which I referred. So we have not, in effect, put any particular ceiling on a province and said that is all we are going to spend there regardless how many good opportunities may be developed."

In effect, lagging regions of prosperous provinces were placed in the same category as the lagging provinces of the Atlantic Region.

It is important to note that, while the solution to the slow economic growth of the Atlantic Region has yet to be found, the various forms of federal transfer payments, including DREE programs, have enabled the Atlantic Region to improve its per capita income position from 69.4% of the average for the rest of Canada in 1970 to 72.7% in 1977. Without such help it is likely that the gap would have widened considerably.

It is not the purpose of this report to bemoan the shortcomings of government programs, nor to catalogue the detailed recommendations of its earlier report that may not have been acted upon, despite their continuing relevance. Many of the government measures that have been undertaken should be judged for their effectiveness in the longer term. Certain major events of the seventies, moreover, have made more difficult the task for most Canadians to sustain and improve material living standards, and catching up to the national average in these circumstances, even with a considerable amount of help, has been doubly difficult. Not all of these events were unfavourable to the Atlantic Region of Canada, as the declaration of the 200-mile fishing zone will attest, but circumstances have changed considerably since 1971 through the interplay of events, some neither discernible nor even contemplated at that time. It is the purpose of the present document to highlight the changes in emphasis and approach that appear now to be needed on the part of both Canada and the Atlantic Region in the light of past experience.

What the Council has undertaken in the preparation of this report over much of the past two years has been an assessment in the Canadian context of the sources and nature of the Region's continuing economic malaise, and a revised regional development strategy for the prospects and perils of the eighties. While dutifully addressing its report to its Minister, the Minister of Regional Economic Expansion, the Council is conscious, as in 1971, that no single organization presently constituted can accept the responsibility in full of implementing this or any other development strategy for the Region, and that actions recommended depend on much harmony of collective and individual effort.

For the record, the approach of the Council to this task has been (a) to analyse and review the economic experience of the Region in the recent and more distant past, (b) to seek the advice of consultants in various aspects of the regional economy in which they had expertise, (c) to formulate broad development themes for the Region in an outline strategy for the eighties, (d) to test these concepts with labour and business representatives, concerned individuals and organizations active in the Region, and with provincial governments, and (e) on the advice of Council committees concerned with the main sections of the work, to draw up a final report which in Council's judgement would be useful as a guide for the attainment of better economic health for the Region in the eighties and beyond.

Despite the extensive consultation process undertaken, the Council makes no claim to a regional consensus in the report except in the sense that the Council itself, according to the Act, is appointed by the Governor in Council, in consultation with the provincial governments, to reflect the economic structure of the Region. Some concerned organizations and individuals in the Region may be disappointed that their views were not sought, and some of those whose views were sought may note that some of their advice was not included in the final report. It has not been possible to reconcile all divergent views, nor does the nature of a document which the Council feels appropriate for a strategy allow for the inclusion of many of the good ideas that have been presented on various entrepreneurial opportunities. The Council accepts full responsibility for the exercise of its judgement in selecting and formulating the views presented in this document, and expresses its grateful appreciation to all who have contributed to its fund of ideas, particularly those who gave freely of their time in the clear conviction that it was worthwhile.

As a strategy, the report should not be taken as a detailed plan completed in all respects, but rather as a thesis, with some detail sketched in, for consideration by all those responsible for determining whether the Atlantic Provinces are to become full working partners in the Canadian federation. The report attempts in summary to bring most of the major issues confronting the Atlantic Region into an economic development focus in the context of a federal framework which itself is undergoing fundamental reassessment.

Debate about strategic considerations for the Atlantic Region is therefore to be welcomed at such a propitious time. Indeed, it is the Council's hope that the report, shortcomings and all, will be widely and thoroughly discussed not only in the Region but in other circles concerned with redefining the Canadian purpose.

CHAPTER 1

COMPARATIVE STATE OF THE REGION - CURRENT ECONOMIC INDICATORS

Before examining root causes and suggesting remedial measures, the Council considered it an essential first task to present an analysis of the economic performance of the Atlantic Region by current statistical comparisons with the rest of Canada. It seeks to indicate thereby the scope for remedial measures still required for the Region in a Canada concerned about equalizing economic opportunities across the nation.

Narrative highlights are given of information presented largely in tabular form concerning personal income, gross regional product, population, labour force, unemployment, capital investment, industrial structure, federal transfer payments to provinces and to persons, unemployment insurance, regional development expenditures, and general economic development and support. A summary of principal findings is given at the end of the chapter.

Growth Trends - Average Personal Income

Personal income per person in the Atlantic Provinces rose (in current dollars) from \$2,240 in 1970 to \$5,494 in 1977, for an increase of 145%, as compared with 134% in the rest of Canada. This apparent improvement is also reflected in the fact that personal income per person in the Atlantic Provinces rose from 69.4% of personal income per person in the rest of Canada in 1970 to 72.7% by 1977. In absolute terms, however, the difference between personal income per person for the rest of Canada and that for the Atlantic Region increased from \$986 in 1970 to \$2,064 in 1977, a rise of \$1,078 over the period. Details by year for these comparisons are given in Tables 1 and 2 and Chart I. As is apparent from Chart I, the personal income figures for the Region and the rest of Canada are still diverging, although the rate of divergence appears to be lessening slightly.

TABLE 1

Personal Income Per Person,
Atlantic Provinces and Rest of Canada,
1970-1977

(in dollars)

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Rest of Canada
1970	1,983	2,082	2,423	2,252	2,240	3,226
1971	2,190	2,170	2,662	2,482	2,461	3,534
1972	2,445	2,540	3,068	2,815	2,809	3,944
1973	2,821	3,087	3,540	3,229	3,251	4,549
1974	3,509	3,402	4,156	3,846	3,876	5,353
1975	4,091	4,084	4,715	4,587	4,512	6,131
1976	4,603	4,650	5,313	5,064	5,054	6,916
1977	5,003	4,988	5,849	5,552	5,494	7,558

Source: 1970 to 1976 - Statistics Canada, 13-201 -
"National Income and Expenditure Accounts".

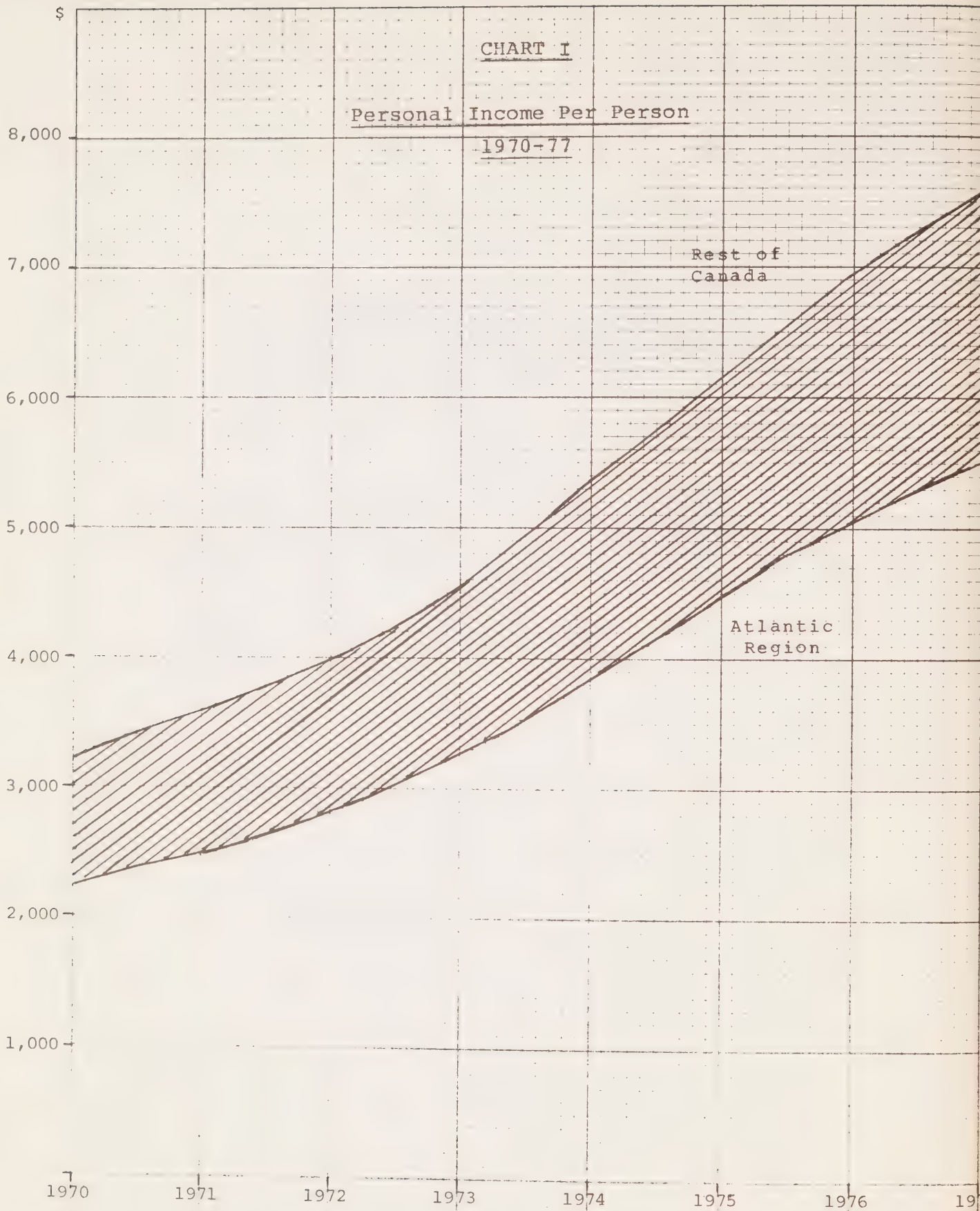
1977 - The Conference Board in Canada,
"Quarterly Provincial Forecast", April, 1978.

TABLE 2

Personal Income Per Person,
Atlantic Provinces as a Percentage of
Personal Income Per Person in Rest of Canada,
1970-1977

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces
1970	61.5	64.5	75.1	69.8	69.4
1971	62.0	61.4	75.3	70.2	69.6
1972	62.0	64.4	77.8	71.4	71.2
1973	62.0	67.9	77.8	71.0	71.5
1974	65.6	63.6	77.6	71.9	72.4
1975	66.7	66.6	76.9	74.8	73.6
1976	66.6	67.2	76.8	73.2	73.1
1977	66.2	68.0	77.4	73.5	72.7

Source: Table 1.



In its Twelfth Annual Report "Options for Growth", 1975, the Economic Council of Canada noted (Page 25) that there had been very slow but steady improvement between 1954 and 1973 in personal income in the Atlantic Region, but warned that extrapolations of the regional and national trends indicated it would take about seventy more years for the Atlantic Region to reach the national average. Since the trend has worsened for the Region since 1975 (Table 2), a less optimistic projection for convergence is now in order, if indeed it is even practical to suggest that the Atlantic Region would eventually reach the national average if it waited long enough.

There is even less cause for optimism about trends in Atlantic Region personal income, in comparison with the rest of Canada, when one examines personal income by the two categories of earned income and government transfer payments to persons. As shown in Table 3 (figures available only to 1976 at time of writing), the earned income category, as a percentage of personal income per capita in the Atlantic Region, has been dropping while the transfer payment category has been increasing. The same is true of the rest of Canada, but to a lesser degree. That personal income per capita in the Atlantic Region has been gaining slightly on the rest of Canada between 1970 and 1976 has been possible because its dependency on transfer payments has risen from about 62% above the dependency for the rest of Canada in 1970 to about 73% in 1976.

Growth Trends - Gross Product

Gross Product in the Atlantic Provinces increased from \$5,264.1 million in 1970 to \$11,445.4 million in 1976, a growth of 117.4% compared to 122.3% for the rest of Canada. Nova Scotia and Newfoundland grew at less than the rate for the rest of Canada, while Prince Edward Island and New Brunswick grew at slightly higher rates. Gross Product per employed worker in the Atlantic Region declined from 77.2% of that for the rest of Canada in 1970 to 71.3% in 1974, but increased to 76.7% in 1976. The absolute difference between Gross Product per employed worker in the Region and for the rest of Canada

Categories (a) of Per Capita Personal Income for the Atlantic Provinces and the Rest of Canada,

Source: Statistics Canada 13-201 - "National Income and Expenditure Accounts".

(a) Components of each of the two categories are as defined for the purposes of the Statistics Canada document cited (13-201).

	1 9 7 0				1 9 7 6					
	Atlantic Provinces		Rest of Canada		Atlantic Provinces		Rest of Canada			
	\$	% of Total	\$	% of Total	\$	% of Total	\$	% of Total		
Earned Income Category (a)	1,877	83.8	2,902	90.0	64.7	4,013	79.4	6,091	88.1	65.9
Transfer Payment Category (a)	363	16.2	324	10.0	112.0	1,041	20.6	825	11.9	126.2
	2,240	100.0	3,226	100.0	69.4	5,054	100.0	6,916	100.0	73.1

increased from \$2,537 in 1970 to \$4,760 in 1976, an increase of \$2,223. Gross Product and Gross Product per Employed Worker for both the Atlantic Region and the rest of Canada are shown in Tables 4 and 5 for 1970 to 1976 inclusive. Between 1961 and 1976 the Gross Product for the Atlantic Region declined from 6.19% of the Canadian total to 5.95% (Statistics Canada 13-213, "Provincial Economic Accounts").

Population

The population of the Atlantic Provinces increased from 2,036,000 in 1970 to 2,204,600 in 1977 for an increase of 8.3%. Canada's increase over the same period was 9.4%. The Atlantic Provinces' share of Canadian population fell only marginally from 9.6% to 9.5%. Table 6 gives population in the Atlantic Provinces and Canada from 1970-77 and the percentages of Canadian population accounted for by the Atlantic Region during those years. During the 1960's, the Atlantic Provinces' share of the total Canadian population fell by one percentage point. During the 1970's, however, the Region's share of population has stabilized at approximately 9.5% of the population of Canada as a whole.

Estimated Interprovincial Net Migration

An interprovincial net migration of 23,445 people into the Atlantic Region between 1970 and 1977 contributed to the stabilization of the Region's share of the population of Canada. In 1970-71 the net out-migration experienced during the 1960's continued. After 1970-71, however, the Atlantic Region experienced net in-migration except in 1973-74 when there was a slight out-migration. Only Newfoundland had net out-migration, losing 7,878 people, between 1970 and 1977. Table 7 shows net migration figures by province and the Region over the period 1970-77.

TABLE 4

Gross Product,
Atlantic Provinces and Rest of Canada,
1970-1976

(\$ millions)

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Rest of Canada
1970	1,170.4	238.8	2,218.9	1,636.0	5,264.1	81,384.2
1971	1,271.3	257.2	2,357.6	1,775.5	5,661.6	89,408.9
1972	1,324.7	287.8	2,704.6	2,040.4	6,357.5	100,159.3
1973	1,560.3	368.3	3,120.1	2,393.2	7,441.9	117,897.3
1974	1,818.2	382.5	3,518.3	2,742.6	8,461.6	141,681.1
1975	2,096.7	447.4	4,037.6	3,224.2	9,805.9	158,311.0
1976	2,513.8	532.5	4,714.7	3,684.4	11,445.4	180,941.0

Source: Statistics Canada - 13-213, "Provincial Economic Accounts".

TABLE 5

Gross Provincial Product per Employed Worker,
Atlantic Provinces and Rest of Canada,
1970-1976

(in dollars)

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Rest of Canada
1970	9,087	6,862	8,657	8,503	8,601	11,138
1971	9,417	6,859	9,191	8,981	9,015	11,955
1972	9,402	7,821	10,362	9,890	9,856	12,977
1973	10,198	9,277	11,292	11,034	10,848	14,527
1974	12,203	9,239	11,955	12,157	11,918	16,718
1975	13,794	10,356	13,691	14,092	13,638	18,315
1976	15,910	12,102	15,982	15,881	15,700	20,461

Sources: Statistics Canada 13-213, "Provincial Economic Accounts",
and 71-001, "Labour Force Survey".

TABLE 6

Population,
Atlantic Provinces and Canada,
1970-1977

(in thousands)

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Canada	Atlantic Provinces as % of Canada
1970	517.0	110.0	782.0	627.0	2,036.0	21,297.0	9.6
1971	522.1	111.6	789.0	634.6	2,057.2	21,568.3	9.5
1972	530.0	112.6	794.6	640.1	2,077.3	21,801.5	9.5
1973	537.2	114.0	804.3	647.1	2,102.6	22,042.8	9.5
1974	541.5	115.2	811.5	653.6	2,121.8	22,364.0	9.5
1975	549.1	117.1	819.5	665.2	2,150.9	22,697.1	9.5
1976	557.7	118.2	828.6	677.3	2,181.8	22,992.6	9.5
1977	562.5	120.3	835.4	686.4	2,204.6	23,291.1	9.5

Source: Statistics Canada 91-201, "Estimates of Population
for Canada and the Provinces".

TABLE 7

Interprovincial Net Migration
Atlantic Provinces 1970-71 to 1976-77

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces
1970-71	-3,704	222	-3,825	- 421	- 7,728
1971-72	910	290	- 371	612	1,441
1972-73	- 537	923	4,276	2,077	6,739
1973-74	-3,316	502	1,274	1,448	- 92
1974-75	495	1,390	2,233	6,103	10,221
1975-76	591	649	3,895	6,561	11,696
1976-77	-2,317	1,324	379	1,782	1,168
Total 1970-77	-7,878	5,300	7,861	18,162	23,445

Source: Statistics Canada 91-208, "International and Interprovincial Migration in Canada".

Labour Force¹

Over the period 1970 to 1977, the total labour force of the Atlantic Region increased from 652,000 to 843,000, or 29.3%, compared with a growth rate of 26.2% for the rest of Canada. The Region's share of the national labour force increased marginally from 7.8% to 7.9%.

The employed labour force of the Region increased by 124,000 from 612,000 in 1970 to 736,000 in 1977, an increase of 20.3%. This growth was slightly less than the growth rate for the rest of Canada of 23.4% over the same period. The Region's share of Canadian employment decreased slightly from 7.7% in 1970 to 7.6% in 1977. The provincial distribution of employment in 1977 was as follows:

Newfoundland	161,000
Prince Edward Island	45,000
Nova Scotia	298,000
New Brunswick	232,000

Over the period 1970 to 1977, there was a marked change in the structure of employment in the Region. Although only the primary sector had an absolute decline in employment, there was also a relative decline in the manufacturing and support sectors. Only service industries had both an absolute and a relative increase in employment. The absolute and relative percentage changes in employment for the 1970 to 1977 period are shown in Table 8.

The labour force participation rate in the Atlantic Region increased steadily over the 1970-77 period from 49.4% in 1970 to 53.8% in 1977, a growth of 4.4 percentage points. The rest of Canada participation rates were 58.7% and 62.3% respectively, for a growth of 3.6 percentage points.

¹ The definitions of the labour force, its components and derivatives are those used in Statistics Canada 71-001, "Labour Force Survey". Data from this source have been supplemented by unpublished data kindly provided by The Labour Force Survey Division of Statistics Canada.

TABLE 8

Changes in Total Atlantic Region
Employment by Sector,
1970 to 1977

(in thousands)

Sector	1970	1977	% Change	% Net Relative Change ^(a)
Primary	64	56	-12.5	-35.9
Manufacturing	95	98	+ 3.2	-20.0
Support	113	136	+20.4	- 2.7
Service	340	446	+31.2	+ 7.9
TOTAL	612	736	+20.3	- 2.9

Source: Statistics Canada "Labour Force Survey",
December, 1977, and unpublished Statistics
Canada data for 1970.

(a) Percentage net relative change is the change in employment in the
Region relative to the Canadian employment growth rate.

Unemployment

According to Statistics Canada's definition and monthly and yearly reports, the number of persons unemployed in the Atlantic Provinces increased from 41,000 in 1970 to 107,000 in 1977. This represents an increase of 161%, compared with 72% for the rest of Canada. The unemployment rate for the Atlantic Provinces increased steadily over the period from 6.2% in 1970 to 12.7% in 1977, for a growth of 6.5 percentage points. For the rest of Canada the unemployment rate dropped steadily between 1971 and 1974, but rose again in the 1975-77 period, so that the growth in the unemployment rate between 1970 and 1977 has been 2.0 percentage points. Unemployment rates over the period 1970 to 1977 for the Atlantic Provinces and the rest of Canada are shown in Table 9.

Many commentators have remarked that Statistics Canada "Labour Force Survey" estimates of the number of persons unemployed, and of the official unemployment rate, present an incomplete picture of the extent of unutilized labour in the Atlantic Region. Various categories of persons excluded from the monthly estimates of Statistics Canada include, among others, those not working as a consequence of firings, staff reductions, lay-offs from permanent plant closures, seasonal lay-offs, and lay-offs longer than 26 weeks. Other measures of the number of persons lacking jobs and seeking work are available from official sources. Canada Manpower compiles a monthly nose-count of clients registered at Canada Manpower Centres as being without employment and actively seeking jobs, and Statistics Canada publishes monthly data showing the number of persons in receipt of unemployment insurance benefits. Council supports the view, held widely in the Region, that the monthly Statistics Canada Labour Force Survey, which is conducted on a sampling basis, appears to ignore readily available nose-count information and to understate considerably the unemployment problem in the Atlantic Region.

Various indicators of unutilized labour in the Atlantic Region for 1974 and 1977 are shown in Table 10.

TABLE 9

Unemployment Rates for the Atlantic Provinces
And the Rest of Canada
1970-1977 (a)

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Rest of Canada
1970	7.3	6.7	5.4	6.3	6.2	5.7
1971	8.5	7.2	7.0	6.1	7.1	6.2
1972	9.2	11.1	7.1	7.0	7.8	6.1
1973	10.1	7.2	6.7	7.8	8.0	5.4
1974	13.3	7.4	6.8	7.3	8.5	5.1
1975	14.2	7.7	7.8	9.9	9.9	6.7
1976	13.6	9.8	9.6	11.1	11.0	6.8
1977	15.9	10.0	10.7	13.4	12.7	7.7

Source: Statistics Canada 71-001, "Labour Force Survey".

(a) Rates shown for 1970-75 have been converted to the new labour force surveys base introduced by Statistics Canada in 1976.

TABLE 10

Various Indicators of Unutilized Labour,
Atlantic Region, 1974 and 1977

(in '000)

	1974	1977	Change	% Change
Labour Force (a)	777	843	66	8.5
less employment (a)	710	736	26	3.7
equals unemployment (a)	67	107	40	59.7
Manpower clients registered as without employment and seeking jobs (b)	117	205	88	75.2
Unemployment insurance beneficiaries (c)	93	133	40	43.0

- Sources:
- (a) Statistics Canada 71-001, "The Labour Force".
 - (b) Canada Manpower Man. 757, "Report on Registered Clients and Vacancies".
 - (c) Statistics Canada 73-001, "Statistical Report on the Operation of the Unemployment Insurance Act", and 73-201, "Benefit Periods Established and Terminated Under the Unemployment Insurance Act".

Capital Investment¹

Annual capital investment in the Atlantic Provinces rose from \$1,635 million in 1970 to \$2,967 million in 1977. This represents an increase of approximately 82% for the Region compared with a national increase of 161%. Hence, the Region's share of annual Canadian investment declined from 9.2% in 1970 to 6.4% in 1977.

Components of capital investment tend to vary widely from one year to another, both absolutely and as percentages of total capital investment.

In the Atlantic Provinces the primary industries and the construction industry accounted for between 10.8% and 15.0% of total capital investment during the 1970-77 period. For Canada as a whole, the primary industries and the construction industry accounted for between 14.3% and 17.2% of total capital investment each year.

Capital investment in manufacturing in the Region amounted to \$359 million in 1970 and decreased to \$271 million in 1977, for a decrease of 24.5%. Manufacturing investment accounted for 22.0% of total 1970 investment in the Region and 18.1% for Canada as a whole. For 1977 the share of manufacturing investment to total investment fell to 9.1% in the Atlantic Provinces and to 12.9% in Canada.

Utilities, made up of transportation, communications, electric power generation and transmission, and other miscellaneous utilities, were of considerable importance as a contributor to capital investment in the Atlantic Provinces. In 1970 investment in utilities represented 25.0% of Atlantic Provinces investment, while the Canadian figure was 20.4%. By 1977, utilities investment was 23.8% in the Region and 20.1% for Canada as a whole.

¹ This section is based on data contained in Statistics Canada 61-205, "Private and Public Investment in Canada".

Service industries, comprising wholesale and retail trade, financial services, insurance, real estate, and commercial services, made up 6.7% of total new capital investment in the Region in 1970 compared to 9.8% nationally. In 1977 the service industries contributed 10.4% of total new investment in the Region, while contributing 10.9% nationally.

Housing, institutional services (schools, hospitals, etc.) and government departments, accounted for 35.6% of total capital investment in the Atlantic Provinces in 1970, and for 37.4% in Canada. During the remainder of the period this component represented between 36.8% and 47.7% of capital investment in the Atlantic Provinces and between 35.7% and 40.9% in Canada.

Industrial Structure¹

In 1970 the primary industries of agriculture, forestry, fishing, trapping and mining accounted for 27.4% of the net value of all goods production in the Atlantic Provinces. By 1975, this proportion had fallen to 23.0%. Nationally, the contribution of primary industry rose from 20.6% in 1970 to 24.4% in 1975, due to growth in agriculture and oil and gas.

Agriculture accounted for a steady 30% of the net value of goods production in Prince Edward Island over the 1970-75 period. For the Atlantic Region as a whole the contribution of agriculture declined from 5.1% of the net value of goods production in 1970 to 3.9% in 1975. Forestry (logging) remained fairly constant as a proportion of the net value of goods production over the period. In 1970 it was 3.2%, and in 1975 it was 3.1%. Fishing declined in relative significance over the 1970-75 period, falling from 5.7% in 1970 to 3.5% in 1977 (based on preliminary data available to Council from several sources). The contribution of the fisheries to the regional economy, however, is expected to improve noticeably in future, with the declaration of the 200-mile fishing zone by Canada in January, 1977.

¹ This section, except where otherwise noted, is based on data (to 1975 only) contained in Statistics Canada 61-202, "Survey of Production".

The relative contribution of the mining industry to net value of goods production in the Atlantic Region fell from 13.3% in 1970 to 11.6% in 1975. In the primary sector, mining is the largest contributor to the net value of goods production in the Region.

Manufacturing provided 36.1% of the net value of goods production for the Region in 1970 and 58.0% for Canada. By 1975 the Region's proportion had risen to 40.0%, and the contribution nationally had declined to 53.1%.

The contribution of construction to net value of goods production is more significant in the Region than for Canada. In 1970, it contributed 29.9% in the Region and 16.7% in Canada. By 1975 the proportion in the Region was 29.8%, but the contribution to Canadian goods production had increased to 18.8%.

Electric power in 1970 accounted for 6.5% of net value of goods production in the Region, compared to 4.6% nationally. By 1975 the Region's proportion had risen to 7.2%, while the contribution for all of Canada had declined to 3.7%.

Federal Transfer Payments to Provinces

Table 11 shows that federal government transfer payments, including conditional and unconditional grants, to provincial governments in the Atlantic Region increased from \$605 million in 1970 to \$1,531 million in 1976, or 153.1%. The increase for all of Canada over the same period was 151.4%. The reasons for the general increases are complex, reflecting not only substantial growth in equalization payments in some provinces, but generally increasing expenditures for university grants and hospital and medical care, which were particularly noticeable in provinces with buoyant populations such as Ontario. In the Atlantic Provinces a significant proportion of the growth was in equalization payments to supplement provincial revenues. Saskatchewan, on the other hand, which shows the lowest growth rate in receipt of federal transfers of all the provinces, at 89.5%, became relatively much less dependent on transfer payments and had a marginal decline in population over the 1970-76 period.

TABLE 11

Federal Transfer Payments to Provincial Governments 1970-76

(in \$ millions)

	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Que.	Ont.	Man.	Sask.	Alb.	B.C.	Canada
1970	194	41	196	174	605	923	918	186	152	233	286	3,303
1971	244	53	228	230	755	1,273	1,085	239	237	272	369	4,230
1972	238	59	272	244	813	1,225	1,160	249	291	292	370	4,400
1973	263	63	314	273	913	1,277	1,202	282	306	309	405	4,694
1974	340	78	368	332	1,118	1,668	1,492	337	316	554	528	6,013
1975	402	108	497	427	1,434	2,041	1,987	454	328	530	743	7,517
1976	409	126	548	448	1,531	2,165	2,349	487	288	573	909	8,302
% Change	110.8	207.3	179.6	157.5	153.1	134.6	155.9	161.8	89.5	145.9	217.8	151.4

Source: Statistics Canada - 13-231, "Provincial Economic Accounts", Table 3, Line 69.

Newfoundland's 110.8% rate of growth, the only one in the Atlantic Region lower than the national rate, reflects a relatively high degree of dependency at the start of the period, particularly in such sub-categories as equalization payments, statutory subsidies, welfare and transportation assistance. A summary by category of transfer payments to provinces as planned for 1978-79 is given in Table 12.

Federal Transfer Payments to Persons

Federal government transfer payments to persons in the Atlantic Region increased by 222.7% over the period 1970 to 1976, growing from \$462 million in 1970 to \$1,491 million in 1976. The national growth rate over the same period was 182.0%. In the Atlantic Region federal transfers to persons grew at more than the national rate in each of the four provinces. Newfoundland had the highest growth rate in Canada at 284.5%. The lowest rate of growth was in Saskatchewan at 128.1%.

Federal transfer payments to persons over the 1970-76 period and the growth rates are shown in Table 13. These transfers are made up of family and youth allowances, war veterans pensions and allowances, unemployment insurance benefits, Prairie Farm Assistance Act, pensions to federal government employees, old age security fund payments, assistance to immigrants, grants from Canada Council, research scholarships and grants, adult occupational training payments, and local initiative program payments.

Unemployment Insurance

Unemployment insurance benefits to persons in the Atlantic Region increased from \$81.3 million in 1970 to \$667.5 million in 1977, a growth of 721.2% compared to 424.1% for the rest of Canada (see Table 14). The Region's share of national payments grew from 11.7% in 1970 to 17.2% in 1977. In 1970 unemployment insurance benefits accounted for 17.5% of all federal transfers to persons in the Region and in 1976 the proportion had more than doubled to 36.9%. Benefits grew at four times the combined rate of all other federal transfers to persons in the Region.

TABLE 12

Estimated Federal Transfers to the Provinces, Territories and Municipalities
Fiscal Year 1978-79 (in \$ millions)

PROGRAM	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alb.	B.C.	Yuk. & N.W.T.	CANADA
Equalization	302.1	77.0	389.2	309.1	1,350.3	-	231.8	28.1	-	-	-	2,687.6
Other Fiscal Cash Transfers	17.6	4.1	21.1	10.7	- 72.7	99.2	8.1	5.9	29.0	12.6	0.3	215.9
Total Fiscal Cash Transfers	319.7	81.1	410.3	319.8	1,277.6	99.2	239.9	34.0	29.0	12.6	0.3	2,903.5
Hospital Insurance	51.2	10.8	78.3	63.9	426.5	740.2	96.8	88.1	169.5	215.2	6.1	1,946.6
Medicare	18.1	3.8	27.8	22.7	151.3	262.6	34.8	31.2	60.1	76.4	2.2	690.5
Post Secondary Ed.	33.3	7.0	50.8	41.5	277.0	480.5	62.9	57.2	110.1	139.7	4.0	1,264.0
Other Established Programs	12.6	2.7	18.7	15.7	139.4	189.5	22.9	21.3	42.1	57.8	1.5	682.3
Total Established Programs	115.2	24.3	175.6	143.8	994.2	1,672.8	216.9	197.8	381.8	489.1	13.8	4,583.4
Canada Assistance Plan	43.6	8.4	51.0	77.4	381.6	417.0	60.6	56.7	132.3	193.0	7.3	1,428.9
Economic Development	58.4	29.4	45.0	53.7	95.1	24.3	20.6	16.0	9.5	15.9	1.2	369.1
Other	7.1	2.7	17.6	25.8	167.9	152.0	31.3	42.2	37.1	31.1	232.7	747.5
Total Other Cash Payments	109.1	40.5	113.6	156.9	644.6	593.3	112.5	114.9	178.9	240.0	241.2	2,545.5
Total Cash Transfers	544.0	145.9	699.5	620.5	2,916.4	2,365.3	569.3	346.7	589.7	741.7	255.3	10,032.4
Tax Transfers	39.1	7.5	70.4	54.4	1,432.7	1,196.1	106.9	100.0	284.5	366.6	9.9	3,668.1
Total Cash & Tax Transfers	583.1	153.4	769.9	674.9	4,349.1	3,561.4	676.2	446.7	874.2	1,108.3	265.2	13,700.5
Equalization per capita	532	633	462	444	214	-	223	30	-	-	-	-

TABLE 13

Federal Transfer Payments to Individuals 1970-76

(in \$ millions)

	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Que.	Ont.	Man.	Sask.	Alb.	B.C.	Canada
1970	103	31	186	142	462	994	1,446	206	185	275	487	4,057
1971	120	35	218	168	541	1,154	1,654	243	207	321	562	4,684
1972	178	47	281	227	733	1,604	2,113	294	257	414	769	6,186
1973	217	54	322	269	862	1,833	2,348	328	291	455	889	7,008
1974	284	68	395	335	1,082	2,346	2,911	388	354	547	1,075	8,705
1975	359	83	474	418	1,334	2,917	3,588	435	386	622	1,335	10,620
1976	396	94	529	472	1,491	3,237	3,742	483	422	676	1,386	11,442
% Change	284.5	203.2	184.4	232.4	222.7	225.7	158.8	134.5	128.1	145.8	184.6	182.0

Source: Statistics Canada - 13-213, "Provincial Economic Accounts", Table 3, Line 49.

TABLE 14

Unemployment Insurance Benefits 1970-77

(in \$ millions)

	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Canada	Canada less Atlantic Provinces
1970	25.3	4.2	26.5	25.2	81.3	695.2	613.9
1971	30.6	5.1	37.0	33.2	105.9	890.6	784.7
1972	70.5	11.2	72.8	70.7	225.2	1,871.8	1,646.6
1973	90.6	14.4	81.6	89.0	275.6	2,004.2	1,728.6
1974	114.3	18.0	93.0	104.9	330.2	2,119.2	1,789.0
1975	159.1	26.2	129.0	151.9	466.1	3,144.0	2,677.9
1976	183.0	32.0	153.4	181.1	549.6	3,342.2	2,792.7
1977	215.9	38.3	192.5	220.7	667.5	3,885.0	3,217.5
% Change	751.7	812.3	626.2	775.3	721.2	458.8	424.1

Source: Statistics Canada 73-001, "Statistical Report on the Operation of the Unemployment Insurance Act".

In 1974, premiums from employers and employees covered 36.9% of benefits paid out in the Region compared to 83.9% for the rest of Canada. With 9.5% of Canada's population, the Region accounted for 41.9% of the \$497.1 million total national deficit of the benefits account in 1974, the latest year for which figures were readily available to the Council¹.

Dependence on Transfer Payments

Over the period 1970 to 1976, the economy of the Atlantic Region became more dependent upon federal government transfer payments. To indicate comparative dependence, combined federal government transfers to provincial governments and persons over the period 1970 to 1976 are shown in Table 15 as percentages of Gross Provincial Expenditures for all provinces of Canada.

The dependence of Gross Regional Expenditure on total federal transfer payments to the Atlantic Region increased from 20.3% in 1970 to 26.4% in 1976. The comparable figures for the rest of Canada are 7.7% and 9.2%. The dependence of the Region on transfer payments increased at an average rate of 5.2% per year, compared with 3.2% for the rest of Canada during the 1970-76 period. In Newfoundland, one-third of GPE was dependent upon transfer payments in 1976. In Prince Edward Island it was more than 40%, while in Nova Scotia and New Brunswick it was approximately 23% and 25%, respectively.

¹ Calculations derived from:

- (a) Ministerial reply to Question No. 618, House of Commons Debates, December 17, 1976, p. 2106; and
- (b) Statistics Canada 73-001, "Statistical Report on the Operation of the Unemployment Insurance Act".

TABLE 15

Combined Federal Transfer Payments to Provincial Governments and
Persons as Percent of Gross Provincial Expenditure - 1970 to 1976

Year	Nfld.	P.E.I.	N.S.	N.B.	Atlantic Provinces	Que.	Ont.	Man.	Sask.	Alb.	B.C.	Canada	Canada Less Atlantic Provinces
1970	25.4	30.2	17.2	19.3	20.3	8.7	6.5	10.8	11.3	7.2	8.2	8.5	7.7
1971	28.6	34.2	18.9	22.4	22.9	10.2	6.9	12.3	12.7	7.7	8.9	9.4	8.5
1972	31.4	36.8	20.5	23.1	24.3	10.7	7.3	12.5	15.1	8.0	9.5	9.9	9.0
1973	30.8	31.8	20.4	22.7	23.9	10.3	6.8	11.8	12.8	6.9	8.7	9.3	8.4
1974	34.3	38.2	21.7	24.3	26.0	11.2	7.2	11.9	10.9	7.2	9.1	9.8	8.8
1975	36.3	42.7	24.1	26.2	28.2	12.4	8.3	12.8	10.3	6.4	10.7	10.8	9.7
1976	32.0	41.3	22.8	25.0	26.4	11.8	8.1	12.2	8.9	6.0	10.1	10.3	9.2

Source: Calculated from Statistics Canada - 13-213, "Provincial Economic Accounts",
Table 2, Line 20, and Table 3, Lines 49 and 69.

Commitment to Regional Development

A strong commitment to reducing regional economic disparities in Canada was undertaken by the Government of Canada with the formation of the Department of Regional Economic Expansion in 1969. With 1969-70 as a start-up year, the Department's expenditure in 1970-71 reached \$330.8 million, which was 2.1% of Government of Canada Gross General Expenditure. Since then there has been a steady downward trend in the percentage of federal effort available to the Department, such that in the 1978-79 Estimates the Department's planned expenditure of \$541.5 million is only 1.1% of planned gross general expenditure (see Table 16). Real value of funding committed to regional development, moreover, has also been decreasing since 1970-71. The planned level of expenditure in 1978-79 in constant 1971 dollars is \$269.0 million, a decrease in real terms of 22.5% (see Table 17).

Departmental expenditure in the Atlantic Region was \$175.4 million in 1970-71. By 1977-78 the level of expenditure was \$202.4 million. In constant 1971 dollars, however, the level of expenditure in the Region declined from \$184.1 million in 1970-71 to \$108.3 million in 1977-78, a decrease of 41.2%, compared to an increase of 5.9% in real terms for the Department's expenditure over the same period in the rest of Canada (see Table 18). It would appear that the progressive reduction in the commitment to reducing regional economic disparities in Canada has occurred entirely at the expense of the Atlantic Region, despite the abundance of evidence that economic disparities between the rest of Canada and the Atlantic Region were not being effectively reduced.

It may or may not be an issue whether the administrative mechanisms governing the use of funds DREE negotiates annually from the central financial authorities allow the Atlantic Provinces to draw down the full amounts annually budgetted for the Region. It may be argued that funds have been available but unused. The provinces may reply that the review process for their sub-agreement proposals is overly time-consuming, even if often not mainly attributable to DREE delays but to delays in obtaining the approval of other federal departments involved. The Council notes this point elsewhere in this report, where it recommends a strong central ministry to manage the whole field of regional economic affairs. Apart from all this, however, the essential point which Council wishes to make is that DREE expenditures in the Atlantic Region, for whatever reason, have been decreasing in constant dollar terms rather than increasing, while they have been increasing for the rest of Canada.

TABLE 16

DREE Expenditure as Proportion of
Federal Government Gross General Expenditure

(in \$ millions)

Year	DREE Expenditure	Gross General Expenditure	DREE Expenditure as % of GGE
69-70	219.5	13,837	1.6
70-71	330.8	15,824	2.1
71-72	344.8	18,218	1.9
72-73	364.9	20,912	1.7
73-74	424.3	24,532	1.7
74-75	438.6	31,483	1.4
75-76	483.5	37,278	1.3
76-77	469.7	41,078	1.2
77-78 ^(p)	525.0	44,450	1.2
78-79 ^(e)	541.5	48,732	1.1

Source: Department of Regional Economic Expansion
and Department of Finance.

(p) Preliminary.

(e) Estimates.

TABLE 17

DREE Expenditure in Current and Constant 1971 Dollars

(in \$ millions)

Year	Current Dollars	Implicit Price Index (i)	Constant ('71) Dollars
69-70	219.5	91.2	240.7
70-71	330.8	95.3	347.1
71-72	344.8	100.0	344.8
72-73	364.9	105.2	346.9
73-74	424.3	114.8	369.6
74-75	438.6	138.0	317.8
75-76	483.5	153.1	315.8
76-77	469.7	166.2	282.6
77-78 ^(p)	525.0	186.9	280.9
78-79	541.5 ^(e)	201.3 ^(f)	269.0 ^(e)

Sources: Department of Regional Economic Expansion,
Government of Canada Estimates and Expenditure Accounts.

(i) Implicit price index for Government Gross Fixed Capital Formation (Statistics Canada).

(p) Preliminary.

(e) Estimates.

(f) Forecast of (i) for 1978-79 derived from Conference Board in Canada's Quarterly Canadian Forecast, July, 1978.

TABLE 18

DREE Expenditure in the Atlantic Region
1969-70 to 1977-78 in \$ millions

Fiscal Year	Nfld.	P.E.I.	N.S.	N.B.	Regional Admin. & Programs	Atlantic Region Total (\$ current)	Atlantic Region Total (\$ constant '71)
1969-70	34.9	10.7	37.7	30.3	-	113.6	124.6
1970-71	62.6	14.9	33.4	64.5	-	175.4	184.1
1971-72	35.5	17.9	43.8	45.6	-	142.8	142.8
1972-73	37.5	19.5	52.1	44.5	0.2	153.8	146.2
1973-74	50.8	19.6	35.1	57.9	2.0	165.4	144.1
1974-75	68.3	22.8	40.8	63.4	6.3	201.6	146.1
1975-76	66.2	34.1	42.4	61.0	7.5	211.2	138.0
1976-77	56.2	36.5	48.6	59.8	9.8	210.9	126.9
1977-78 (p)	61.0	33.5	45.2	52.4	10.3	202.4	108.3
Total 1969-70 to 77-78	473.0	209.5	379.1	479.4	36.1	1,577.1	1,261.1

Source: Department of Regional Economic Expansion, Moncton.

(p) Preliminary.

General Economic Development and Support

The weakening federal government financial support of efforts designed to foster regional development, as shown in the steadily decreasing portion of gross general expenditure and declining real level of expenditure devoted to DREE programs, did not initially reflect a weakening commitment to all programs for "economic development and support", as shown in annual Treasury Board figures for that category of expenditure. In the five years prior to the establishment of DREE, 12% of total federal government budgetary expenditure was made on economic development and support generally. In the first full year of the operation of DREE in 1970-71 the proportion was 14%. A peak of 16% was reached in 1975-76. The proportion has since declined steadily, however, to a planned level of only 11% of the main budgetary estimates for 1978-79. In current dollars, funds for economic development and support reached \$5,467 million in 1975-76, but have declined to a planned expenditure of \$5,134 million (current dollars) in the 1978-79 Main Estimates.

Conclusions in Summary

Trends presented in the preceding sections of this chapter lead to a number of conclusions about economic performance of the Atlantic Region in the seventies and the effectiveness of national policies in reducing the degree of economic disparity between the rest of Canada and the Region. Some of the trends have been positive even in the recent, most difficult period when the Region, like the rest of Canada, has been beset by the withering effects of the current world-wide recession and the need at home to contain inflation. For the most part, however, the gaps between the rest of Canada and the Region have widened in the seventies.

Nominal gains have been made in personal income per capita in the Region in the current decade, as reflected in the rise from 69.4% of the average for the rest of Canada in 1970 to 72.7% in 1977. In absolute terms personal income per capita in the Region increased from \$2,240 in 1970 to \$5,494 in 1977, an increase of 145% compared to 134% for the rest of Canada. Persistent out-migration from the Region, characteristic of earlier decades, appears to have been arrested and, temporarily at least, reversed, helping the Region's population to grow by 7.2% and to stabilize at a 9.5% share of national population. Over the 1970-77 period also, the Region's labour force participation rate gained slightly (eight-tenths of a percentage point) on the rate for the rest of Canada. These are indications that Atlantic Region people generally prefer living in their own cultural and physical environment so long as a basic livelihood is assured.

Too many of the gaps, by which regional economic disparities are measureable, have widened during the seventies for the Council to conclude that current national policies, on balance, are effective in combatting the basic economic ills of the Region in the federal context. While there was some narrowing of the relative gap in personal income per person between the Region and the rest of Canada, the dollar difference increased by 109% from \$986 in 1970 to \$2,064 in 1977, and the divergence is continuing. That some relative improvement occurred appears to have resulted almost entirely from continuing growth in government transfer payments to persons, particularly unemployment insurance benefits. Provincial governments of the Region have also become more reliant on federal transfers, but to a lesser degree than individuals. Overall dependence of the Region on federal transfer payments increased from 20.3% in 1970 to 26.4% by 1976, and was at that time nearly three times higher than for the rest of Canada and more than twice as high as for the most dependent province outside the Region. The official unemployment rate rose faster than the rate for the rest of Canada in the seventies, and was 12.7% in 1977 compared to 7.7% for the rest of Canada. Employment from 1970 to 1977 also grew at a slower rate, and the Region's share of total Canadian employment fell marginally. New Capital investment in the Region grew at half the rate for the nation as a whole in the 1970-77 period, while the region's share of

annual new capital investment in Canada declined from 9.2% in 1970 to 6.4% in 1977. Undoubtedly the Region would have fared much worse in the seventies without federal transfers and regional development programs, but even in combination with internal wealth-generating activity they have been insufficient to prevent serious deterioration in the Region's relative economic position.

Growing dependence of the Region on federal transfer payments appears to have had the effect of changing the structure of the regional economy in a way which increases its vulnerability in the event that transfer payments are curtailed and new economic opportunities are not found to compensate for the loss. The current mix of total employment in the Region between primary, secondary and tertiary sectors has, in the Council's view, an excessive degree of dependence on tertiary employment. In the primary industries employment in the Region declined by 12.5% over the 1970-77 period. There was also a decline in the relative importance of manufacturing, and although the number of employed people in manufacturing has shown a small gain overall, a decline in numbers began to appear in 1977. In the service industries, on the other hand, there has been a notable increase in its share of total regional employment, from 55.5% in 1970 to 60.6% in 1977. To some degree this pattern parallels the Canadian experience as a whole, although the nation is somewhat less dependent on service industries and is showing a gain in primary sector employment while the Region is showing a loss.

The Council's concern from a regional viewpoint is that too little of the growth in service employment is related to the generation of goods production in the Region and too much is artificially induced by transfer payments, much of which leaks quickly from the Region as consumer spending to help sustain goods production elsewhere. Although the leakage is undoubtedly slowed by the extent to which people of the Region find employment from the circulation of transfer payments in trade, finance, insurance, real estate, public administration, and community, business and financial services, the attractions and opportunities of business ventures in the natural resources and advantages of the Region diminish in importance as reliance on transfer payments increases.

Probably as a result of the increasing flow of federal transfer payments to the Region to maintain its standard of living, funds provided to the Region for regional development have been declining in real terms during the seventies. While the decline has been evident in the budget for DREE as a whole, by far the major brunt of the decline has been applied, deliberately or otherwise, against the Atlantic Region. In the Council's view a more fundamental understanding of the Region's economic malaise is required on the part of the national authorities, and a different approach warranted for restoration of the Region's economic fortunes, involving much national and regional self-examination.

CHAPTER 2

THE ATLANTIC REGION IN CONFEDERATION - BRIEF HISTORICAL PERSPECTIVE

The Council believes that an adequate understanding of the economic malaise of the Atlantic Region of Canada must be sought as much from its history as from diagnosis of its current economic performance. Beyond understanding, moreover, there is therapeutic value for the people of the Region in recognizing the sources of their economic difficulties and resolving positions for the future from the lessons of the past. In reviewing other summaries and formulating its own overview of the Region's experience in the Canadian federation, the Council has been aware of the hazards of selectivity, repetition, and generalized interpretation of what happened and what did not, but for its current purpose considers certain features of the experience essential background to its strategic thesis. This motive aside, it would still argue that a thoroughly researched and objectively written economic history of the Region, adapted as well for student and popular use, would be an extremely worthwhile addition to the Region's assets.

Overview of the Region's Economic History

While the Newfoundland case is special because of its late entry into the Canadian federation, the Maritime Provinces were all reluctant to join and have subsequently had an historic sense of grievance that, on being committed by their leaders to the union, they were denied the opportunity of fulfilling in Canada some of the roles which their neighbours in the northeastern states were already carrying out for the more populous federal union to the south. With the clarity of conviction common to founding fathers of any new nation, Charles Tupper and Leonard Tilley believed that within Confederation the Maritime Provinces would become "a great emporium for manufactures in British America".

They had reason for optimism. By the mid 19th century, the Maritimes and Newfoundland had attained a relatively strong and prosperous place in the Continent, had achieved responsible government, and were proving an ability to make their way economically despite the withdrawal of customs preferences by the Mother Country.

It was not that, in a global sense, they had any particularly important resource or locational advantages, but rather that they had of necessity created a vertically integrated economy in each case, with some degree of inter-dependence. Manufacturing accounted for a respectable 37 per cent of Maritime output by 1880 and a multiplicity of small and medium sized firms competed for markets both within the Region and further afield. The growing entrepreneurial base was supported by a population that was hardworking, resourceful and, by necessity, self-reliant.

The Region was more inventive and outward looking than it is today. Because of its extensive shipbuilding and shipping involvements, the name "Maritime Provinces" was not then a misnomer. Between one-fifth and one-third of the world's merchant shipping tonnage operated out of such ports as Saint John, Windsor and Yarmouth. The Maritimes then had 20 per cent of the Canadian population and accounted for a quarter of the country's mining output. Its industrial productivity, if not its industrial volume, matched or exceeded that of some of the developed European nations and it was a considerable international source of salt fish and lumber.

With the regional advantages that they perceived, Tupper and Tilley believed Confederation could only mean further expansion and development for their area and its people. Their hope was an illusion. The broadly based, self-sustaining, entrepreneur-led economy they knew has been replaced by one with a high dependency on resource extraction, service industries and external cash and technological transfers. In its present diminished status the Region has long been a source of migrant labour and a captive market for the products of the tariff-protected, centrally based Canadian manufacturing industry.

The Canadian federal union was dominated from the beginning by the Upper Canada (Ontario) - Lower Canada (Quebec) partnership, which found in Confederation the accommodation which they had not achieved earlier under Lord Durham's prescription of legislative union. In contrast to the seaward orientation to which the Maritimes were accustomed, the preoccupation of the new Canada was with the great land mass available in the West. That four large new western provinces were added within forty years, from territory which previously had only the sparsest degree of European settlement, is a remarkable Canadian achievement. Incipient Maritime industry benefitted to some degree from this effort, because of the Intercolonial Railway arrangements by which they had been induced in part to accept the union, but the focus of commercial and industrial operations for the opening up and supply of the West became indisputably established in the Montreal-Toronto area, with a major outpost in Winnipeg and a national government in Ottawa to orchestrate the process.

In retrospect it is not too surprising that the Maritimes did not receive the degree of national attention which might have given them a successful transition to steam from a strong sailing presence in world shipping (as Norway, for example, was obliged to do). Great land distances eventually all but precluded their new enclave industries along the Intercolonial Railway, and in Halifax and Saint John, from competing within the national tariff policy with Central Canadian manufacturing on the growing domestic market.¹ Many of these Maritime industries were closed down after merging ownership with entrepreneurs from the regions of Canada they were designed to service, and by the same process the financial system of the Region drifted away to the "national" centres of Montreal and Toronto. After control within the Region of the favourable Intercolonial Railway rate structure was lost through rationalization into the Canadian National

¹ It is ironic that the national tariff policy was introduced by Tilley of New Brunswick as Canada's Minister of Finance in 1879, but the "national scene" has been exciting enough to attract many other ambitious Maritimers (including four Prime Ministers of Canada) who also share in responsibility for the kind of Canada that has emerged.

system towards the end of World War I, the ability of Maritime manufacturing industry to compete on the national market was in large measure terminated. Between 1920 and 1926 the number of remaining manufacturing jobs in Amherst, Dartmouth, Halifax, New Glasgow, Sydney, Truro, Moncton and Saint John fell from 25,000 to 14,000, or 44%, and about 150,000 Maritimers left the Region. Although transportation subsidies were instituted in 1927, just before the Great Depression, and remain to the present, the loss in the industrial momentum of the Region, earlier characterized by impressive technological innovations in Saint John, for example, has been apparent in both psychological and economic terms in the Region ever since.¹

Between 1890 and 1937 the Maritimes' position relative to Canada in manufacturing gross value per capita shrank from 68% to 42%. Maritime industry did not receive the same permanent structural benefits from World War I defence industries as Central Canada, nor from the influx of United States investment capital in the twenties for branch plants in motor cars and electrical products and for base metal mining. These trends were reinforced by World War II, the Cold War, the construction of the St. Lawrence Seaway, and a further wave of U.S. investment in branch plants for consumer goods to serve the Canadian and, to some extent, the Commonwealth market. No major metropolis developed in the Maritimes, nor did the agglomeration occur of skills, services, financial institutions, and inter-related industries which have characterized growth in the Montreal area and Southern Ontario. Although arguments have been presented that the cost disadvantages for manufacturing in the Maritimes for the national market are insignificant with today's freight subsidies, the fact is that few, if any, "national" or U.S. subsidiary corporations have chosen the Maritimes as a location to serve the Canadian domestic market. If one accepts that a basic objective of any nation is to equalize opportunities across the land, and to implement policies which eventually turn regional diseconomies into advantages, then the legitimate grievance of the Maritimes is that there was no place for them in the National Policy as it evolved.

¹ These and related findings are more thoroughly discussed in an unpublished essay by David Alexander, Memorial University of Newfoundland, and in essays by Ernest R. Forbes, T. W. Acheson and Colin D. Howell in the book Canada and the Burden of Unity, edited by David Jay Bercuson, The MacMillan Company of Canada, 1977.

In effect, after two promising starts which proved abortive, the Maritimes were left behind to rely on their limited natural resources to a degree which they were already outgrowing before Confederation, and eventually to depend in increasing measure on freight subsidies and the federal transfer payment system introduced and expanded by successive stages since the Depression and World War II. A few vestigial factories of the past remain in business, continuing to sell specialized products on the larger Canadian market. Two major tire manufacturing plants have been attracted in recent years to Nova Scotia to serve the North American market in spite of countervailing U.S. duties. A small number of national firms have branch plants in the Region to serve the regional market. One major national company has recently adopted a corporate policy of establishing plants for new components outside Ontario and Quebec, so as to be part of the regional economies which it serves. Northern Telecom has established five such plants in the Atlantic Region directly employing 500 people in total. These are all rather exceptional cases. Some local needs are met by small-scale locally owned plants, but for the most part the present manufacturing industry of the Region consists of processing primary products of local origin for export. Much of the industrial output, particularly in minerals and fishery products, is exported in raw or semi-processed form. For most consumer goods and industrial supply, the Region remains a captive market for Central Canadian industry and commerce, and its people have been conditioned to be consumers rather than adaptors of technology and producers of finished goods.

The sense of colonization was reinforced by the reduced level of political expression afforded to a region of diminishing population importance. Apart from the many people of the Region who joined them, the big Canadian immigration waves of 1901-11, 1921-30, and 1941-61 left the Maritimes as well as Newfoundland virtually untouched. The population of the Maritimes dropped from 20% of the nation in 1871 to 8% in 1961, a staggering difference of 150% in relative importance. Such a distortion did not occur in the United States. Despite the massive influx of new people to occupy the southern half of the continent, the share of the U.S. Northeast (eleven states and District of Columbia) lost only 22% in relative importance between 1870 and 1957, and its metropolitan centres retained a substantial share of the national business.

In comparison with Newfoundland, the Maritimes have enjoyed a demonstrably higher standard of living for a longer period of time, perhaps in large measure because Newfoundland stayed out of the union, with its own customs tariff, until 1949. Although Newfoundland had its own share of economic and political afflictions, its early dependence on exports from a primitive fishery had been supplemented by substantial mineral exports in iron ore from Bell Island and base metals, the establishment of the first pulp and paper industry in the Atlantic Region, and a small manufacturing base for a number of local needs. After the bankruptcy and despair of the thirties it had prospects for a strong post-war revival and modernization of its fishing industry. Newfoundland was not then, and is not now, as unproductive as some people suggest. Although the economic benefits flow largely to Quebec and elsewhere in North America, Newfoundland now supplies a disproportionately large share of iron ore and hydro-electric power from Labrador to the continental economy, and has installed capacity, unfortunately now idle, to supply substantial exports of linerboard and refined petroleum from the Island.

Certainly the union has conferred major benefits on Newfoundland since 1949, particularly in social services. In the flush of these benefits and its new orientation, however, Newfoundland's fishery revival prospects dissipated during the fifties and sixties, and the relatively strong indigenous business community, long resistant to union with Canada, shifted rather quickly from traditional fishery exports and small manufacturing to warehousing and distribution for national and international firms, with increasingly strong competition from outside retail chains. Repeated failures to implant new industry as a substitute for fishery employment led to much out-migration in the fifties and sixties, to very high unemployment rates by the mid-seventies, and to a demoralizing dependency on the unfamiliar blessings of federal transfer payments to supplement personal income and sustain the provincial economy. Undoubtedly the personal security of Newfoundlanders was improved by the decision in 1949, but it was at the price of becoming, like the Maritimes, a client state of the "empire of the St. Lawrence".

What Now?

If beliefs in past glories, mythical or well-grounded, and regrets for a lost vitality were not so important to the collective psyche of the Region, it might be more ready to admit that it risks acquiring the image of a charity case for the rest of Canada. It might also be more ready to admit that Confederation alone did not close the door to regional prosperity. Other factors were obviously involved, such as the end of trade reciprocity with the United States, and the vulnerability of its mid-nineteenth century economy to technological change, as the Atlantic Provinces Economic Council has been careful to point out in its February, 1978, Newsletter. It is no less realistic to note, however, that as Canada's impoverished East Coast colony, the Atlantic Region appears to be suffering in the minds of many of its people to a disturbing degree from self-doubt, collective inertia and resentment, a syndrome characteristic of defeated peoples until the means are found to prove themselves once again. In the Council's view, it has to be admitted, as many are doing, that the Region collectively has been less imaginative, enterprising and ready to use the advantages of its resources and location, and its partnership in the Canadian union, than it might have been.

Hindsight is always the best vantage point from which to say what might or should have been. The past of the Atlantic Region, however, cannot lightly be put aside and should give pointers for the future.

The Atlantic Region has not found, nor has it been assigned, any major roles for the Canadian family beyond the scope of local resources. True, there have been minor roles of convenience, as winter ports for grain, as Canada's principal naval base, and in a negative way as a source of manpower, particularly of the skilled and educated, for major national roles carried on elsewhere.

Today, the Atlantic Region is a place of unrealized but not unrealizable dreams. The optimism that propelled people of Atlantic Canada in the past to found great financial institutions and shipping lines, to trade internationally, and to preside at the birth of a new nation, still exists. But it is under attack from far more compelling human emotions. There is frustration at the Region's inability to make more of its obvious wealth-creating potential. And there is fear

that, preoccupied by national unity considerations, Canada may eventually lack the will or the means to maintain its current generous, if not always best directed, financial support.

It is not the mythical "slower pace" or the "alluring lifestyle" of the coastal provinces that keeps men and women out of the labour force. It is a shortage of jobs.

There is very little glamour in subsistence living, even when it happens by the sea. But in some parts of the Region unemployment has been endemic for so long that many people, particularly women, have felt there was little point even in trying to enter the labour force. The fact that many, often well educated, young people are either compelled or now feel inclined to adapt to a dependent lifestyle has frightening implications for the future and warrants rigorous examination of the whole social impact of institutionalized unemployment.

New roles and a fresh sense of purpose must be found by the Atlantic Region if it is to close the gap between its present, unsatisfactory economic performance and the promise inherent in what many regard as a former "Golden Age".

Regional disparity should be seen not so much as a regional failure, but as a symptom of under-developed national economy. Curing it will strengthen the nation. But first, there has to be a much better appreciation, both nationally and within the Region, of the strengths the area has for expanded wealth creation, the opportunities that are being lost by a failure to recognize them, and the need for the Region to be an active participant in the national economy.

Among the biggest changes needed are ones of attitude and will. The Atlantic Region has been stigmatized by failure, made the subject of benign federal paternalism, and angered by the investment indifference of a largely disinterested Canadian corporate sector. People of the Region have been angered too by the simplistic assertions of opinion salesmen writing for supposedly national newspapers that they would be better off if they stopped getting handouts from Ottawa and supported themselves as best they could with their own human and natural resources.

The Region is by no means alone in its disaffection with the Canadian arrangement. In addition to francophone Quebec's election of a separatist government, the Western Provinces have developed their own distaste for cultural and economic domination from the East, and wish to use their considerable resource base to diversify their own economies, and their growing economic strength to influence national decisions. By no means separatist, the Western Provinces (at least as sensed in a recent report of the Canada West Foundation) view their future in Canada as a dynamic process in which "old agreements and trade-offs are replaced by new ones, in order to maintain the advantages and the equilibrium which are the essence of the whole".

If, as appears certain, a process of fundamental renegotiation of Canada has already begun, it is incumbent on the Atlantic Region to prepare its negotiating position in its own interests and for the good of the whole. In 1971 the Council prepared an economic development strategy based on the Region's human and physical resources and on the assumption provided by the Economic Council of Canada of continuing growth in the national economy and without present fears about national unity. Now, however, there is a unique opportunity, and indeed an obligation, for the Region to combine its considerable innate possibilities with specific national economic roles for Canada that can be identified for the Region and strongly negotiated in the forthcoming talks on the future of the Canadian federation. Constitutional changes may well be needed for Canada, but for the Atlantic Region are clearly secondary to a new set of understandings about participation in national economic endeavour.

An economic development strategy for the Region over the next ten years, therefore, must be concerned as much with identifying national economic roles for the Region, in anticipation of the kind of new Canadian arrangement that would be acceptable to it, as with postulating workable initiatives for an entrepreneurial renaissance based on the Region's resources. There is no need, nor would it likely be profitable, to approach this task with a sense of historic grievance. There is a need to consider the risks for the Region attendant upon the possibility of Canadian break-up,

and there is a need to establish a positive bargaining position for the Region, particularly for an industrial role, having in mind the miscalculations of the past and the safeguards necessary to assure a healthy, contributory posture for the Region in the future. Not the least of what the Region has to offer is the potential energy available in finding release from the syndrome of defeat in the challenge of new possibilities of achievement.

CHAPTER 3

BASIC THEMES AND RESPONSIBILITIES FOR THE FUTURE

A Question of National Purpose

In what proportions the economic condition of the Atlantic Region is attributable to disappointments in Confederation, shortcomings in the people of the Region themselves, the nature of its resource endowment, and external forces, the Council takes no rigid position in the belief that what matters is that people of the Region regain confidence in its economic worth as a part of Canada.

If Confederation had not occurred, the Region would have been left entirely to its own resources, to cultivate its own forms of independent existence as individual countries free to make bargains and alignments among themselves or with others. Against the dire possibility of future Canadian break-up, however remote, the Region would be well advised to pursue as its first priority the optimum development of its resource endowment as the most elementary precaution for economic survival. Whatever independent political units were formed out of the Region, each would have to seek the best means it could to build a balanced economy of its own, within its bargaining power with others, close neighbours and distant countries alike, and without the advantage which a continuing Canada has to offer.

As a continuing part of Canada, which is the Council's basic assumption, neither the Region nor any of its provinces can expect to be accorded all of the attributes and components of a national economy, which they and other provinces have agreed to be constituted under federal management. What they have a right to expect, as a principle of national purpose, is that the national economy be so managed as to ensure within reasonable tolerances that an appropriate share of the enormous range of national economic activity be carried out in the Region (and in each province) to supplement its locally based industrial activity to the degree necessary for the enjoyment of a common citizenship.

It is apparent from data in Chapter 1 that Canada has not yet achieved the foregoing principle of national purpose in respect to the Atlantic Region. As it is not the wish of the Council to make a case on the niceties of arithmetical precision, its concern is with defining reasonable tolerances and with methods of converting regional disparities, as known in the Atlantic Region, into reasonable tolerances. It is the view of the Council and, it believes, of the people of the Region, that the persistently high unemployment rates and persistently low per capita income levels of the Region do not reflect reasonable tolerances for the management of the national economy.

The Council recognizes that much national effort has been expended through transfer payments to compensate the people and governments of the Atlantic Region and others for their lack of sufficient locally-based economic activity generated within the constraints imposed by the national economy. Not only have transfer payments been enlarged, but they have been supplemented in recent years by regional development programs directed primarily at the fostering of locally-based industry. As methods of keeping regional disparities from widening still more unconscionably, the two approaches combined have undoubtedly had good effects and should be retained as long as they are seen to be necessary national instruments. As methods of reducing regional disparities to reasonable tolerances, however, they are clearly insufficient in the case of the Atlantic Region.

It is the view of the Council that in the long run the heavy reliance of the national government on the transfer payment method is counter-productive, however necessary it obviously is for the Region in the foreseeable future, and however preferable it may be for administrative convenience. If the Council were convinced of the possibility of long-term solutions through transfer payments, it would be advocating them in greater abundance and variety. It regards such a view of Canada, in which the people of the Atlantic Region are type-cast as eternal suppliants (unless they strike oil and gas) as one belying their common humanity with other Canadians. The Council looks for a deliberate but gradual shift in emphasis in the management of national affairs, away from redistribution of the fruits of the national economy, as it has evolved, and towards redistribution of national economic activity itself.

Regional Development Assistance

Regional development programs, on the other hand, are not regarded as counter-productive so long as they are rigorously directed at enhancing local economic activity with the potential of commercial viability. Not only do they add to the national wealth but they assist the provinces to maximize the employment opportunities within the jurisdictional limits available to them. This, in the Council's view, is a matter of first concern in strategy-making for the Region. Much of the strategy being recommended by the Council, therefore, is concerned with economic possibilities ordinarily within provincial powers for regulation and stimulation, but intensified federal help through regional development programs to enhance these opportunities is recommended, rather than the diminishing scale of effort of recent years (as shown in Chapter 1).

Regional Economic Balancing

Useful as present regional development programs are, however, they do not absolve the national government from the constant obligation to use its other considerable powers to shape the national economy for balanced regional participation. As indicated later in this report, there are numerous ways in which this may be done to provide the Atlantic Region an adequate share in the national effort. By no means placing an undue burden for its strategy on the national government, The Council recognizes that much will depend on the response of the private sector, both within the Region and outside, but in this second major aspect of its strategy the Council looks to the national government, with a conviction based on the Region's history and present condition, for a stronger leadership role.

In respect to the response of the private sector, it may well be argued that the role postulated for the national government risks excessive intrusion on the operation of the market system. The history of Canada is replete with such intrusions, excessive or defensible, many of them engineered by private sector interests and given the gloss of great

national projects. Subsidized tolls on the St. Lawrence Seaway and the recent write-off of its \$850 million capital debt and accumulated deficit illustrate well the artificiality of prices set for goods passing through the Seaway system. Precedents abound in which the exercise of political will in Canada has overridden purists' considerations of market forces at hand, removing obstacles in the way of national development as it has been perceived. The Council's concern is not that such measures have been undertaken (they are central to its argument), but that some have proven inimical to the Atlantic Region and those that have been awarded the Region have in sum been either insufficient or ineffective for development of a sound regional economy in a federal context. If one may assume that market forces respond to their own best advantage and with due respect for the rules reflecting the national purpose, one is led to conclude from the economic record of the Atlantic Region that articulation of the national purpose has been notably deficient.

To be fair, the Council notes with encouragement that Northern Telecom, as cited earlier, has established five branch plants in the Atlantic Region to produce components for its total operations. The Council has been further encouraged to note that, in his brief to the Task Force on National Unity in 1977, Premier William Davis of Ontario drew to the attention of national companies that they would be serving their own best interests in helping to safeguard national unity by looking to the less developed provinces not merely as markets but as sites for some of their productive capacity.

Many examples may be cited from the past, and there are encouraging signs in recent years, of federal decisions which would appear to have been made in recognition of such a concern for the Atlantic Region. Generally, however, they appear to have been ad hoc decisions, coups of ostensibly skilful politicians from the Region, or concessions wrung out of the exigencies of the moment by provincial governments and public pressure from a supposedly benign central authority. To whatever extent these appearances may be valid, the continuing disparities speak for themselves and the people of the Atlantic Region have good reason to doubt whether

commitment to balanced regional economic activity has yet become an expression of high national purpose. In Norway, for example, Council's Resources Committee noted during their visit that such an expression of high national purpose was manifest with a clear and unequivocal commitment to major development of all regions. Beyond present regional development programs in Canada, which, as already noted, the Council values in the context of helping provincial governments with their own development efforts, the Council recommends that the national government raise the ad hoc exercise of its other powers to the level of deliberate economic effort, and that machinery of government be reorganized for the purpose.

In the case of the Atlantic Region, of course, reality requires balancing the national economic effort provincially as well as regionally, in contrast with provinces to which federal administrative thinking and practice appear already to have accorded regional status individually.

Illustrative of the instruments available for regional sensitivity in national economic policy formulation are deployment of federal housekeeping and purchasing operations; selectivity of taxation measures; great national projects for the future; incentives for industry, with particular attention to key elements and cornerstone complexes; encouragement of research and development tailored to regional needs; trade, marketing and tariff negotiations; new frontiers in the North and the oceans; moral suasion and regulation of national corporations; control of foreign investment; and strategy formulation for the strengthening of the national economy. This is not to deny that some measures have already been taken for the benefit of the Atlantic Region. One such measure, for which the Region is most grateful, is the recent declaration by Canada of its 200-mile fishing zone. The Council predicts that this measure alone, as discussed later in this report, will have far-reaching benefits for the Region in revitalizing whole communities and areas and in restoring confidence to a troubled industry important to all four provinces. A charter for the economic revival of the Atlantic Region would include a number of such measures and a strong commitment to their long-term orchestration into the national economy.

Self-Development

Whatever the response of the federal and provincial governments and the private sector, a pressing concern of the Council is whether the people of the Region demonstrate a willing response, as they once responded to necessity and opportunity of other days, to present opportunities and to enlightened management of the affairs they, in common with other Canadians, have entrusted to the federal government.

Not to single out unemployment insurance for the whole brunt of its concern, the Council has witnessed in the application of the present program too much distortion of the good reputation of the people of the Region for hard work and self-reliance, and has heard too many representations about its dampening effects on enterprise and initiative, to have confidence in a future for the Region in which greater dependency is a way of life. The Council readily acknowledges that the subject warrants more detailed study than has been possible in a general strategy review. The Council deplores, however, the high proportion of federal effort channelled into unemployment insurance as compared to its efforts in permanent job creation for the Region; the use of short-term make-work projects to confer eligibility for unemployment insurance as a disguised form of welfare assistance; and the tendency for the program to have the effect of a disincentive to work, particularly in the fishing industry (as will be discussed later in this report). The Council strongly supports unemployment insurance as a necessary program for people between jobs, but the chronic unemployment problems of the Atlantic Region, including seasonality, warrant more fundamental attention, in the Council's view, than is possible with a program which should be designed to alleviate short-term distress and which tends to reinforce chronic unemployment problems when used otherwise.

In their general economic lassitude and dependency, many people of the Region, in the Council's view, lack an adequate orientation to wider economic horizons. Educational systems themselves are the product of the limited means that have been available, and in some fields of vital importance to the resource endowment (fisheries and agricultural technology, for example) the Region lacks the institutional framework to prepare young people to competitive professional levels in entrepreneurial and technological competence.

A third major area of concern in the Council's present strategy, therefore, is that efforts be intensified to encourage and assist people of the Region in their self-development. This is not only a question of training and educational opportunity but of confidence and morale, all of which are directly related to the adequacy of the means of economic achievement within the Region.

In the Council's view, the logic of a national economy which expected and encouraged (latterly through manpower mobility programs, for example) the ambitious and the unemployed to move to economic "hotspots" in Canada reflects an outdated view of Confederation which should be discredited. As the people of Quebec are inhibited on grounds of language and cultural self-preservation from accepting continuation of such a policy, so the people of Atlantic Canada now seem to realize that it is also a denial of their worth in the Canadian family, except as immigrant manpower, and that the forthcoming renewal of the Canadian federation is a rare opportunity to seek a better understanding.

"A Time for Action"

Much as the Council is convinced of the value and necessity of self-development for people of the Region, it is concerned with the possible implications and shortcomings of the term "self-development of regions" as used in "A Time for Action". This paper was just published by the Government of Canada, to highlight its proposals for the renewal of the Canadian federation, at the time this report was being written. If the term indicates an intended withdrawal in some degree of federal responsibility for regional development, much of the Council's strategy for the Atlantic Region would be worthless. The means cited for promoting self-development of regions, moreover, "by avoiding excessive centralization", appears to be at best an ambiguous blend of the positive with the negative. In the Council's view, what might be excessive centralization for further self-development in some regions of Canada might be regarded as essential means to stimulate the catch-up process in Atlantic Canada.

Communities

Within the Atlantic Region and each province there are great economic disparities, particularly between some of the rural areas and the major cities. As the Council has been concerned that the federal government has a responsibility for regional economic balancing between regions and provinces of the country, so it regards the provinces as having a similar responsibility within their own borders. Although provincial and sub-provincial strategies are beyond the scope of this report, some general observations about communities of the Region are offered in the context of designing a regional economic strategy.

Developments of recent years in transportation, communications, rural electrification, health services and educational opportunity have virtually nullified isolation in most rural areas. The important community unit of the Region today, in the Council's view, is the area community, a cluster of small communities and rural settlements focussed on an urban centre within commuting distance of its supportive hinterland. With units varying in size, this settlement pattern is now well established in the Region, geared to local resources and opportunity. The Council feels it would be better to reinforce and build on the natural pattern rather than to disrupt it and force it into another mould. As noted earlier, Norway is already committed to such a policy. In the Atlantic Region setting, moreover, provincial realities do not seem to favour policies which would hasten the creation of a large regional metropolitan centre, which is the hallmark of sophisticated economic development. In the Council's view, given the advantages of modern transportation and communications, the equivalent advantages of a major metropolitan centre should be sought, and could be achieved, through complementary specialization of roles for the major cities of the Region. In this, as in other matters of common economic interest, the Council recommends a high degree of collaboration between the four provincial governments for mutual benefit.

The problems and aspirations of predominantly French-speaking area communities are common to those of other area communities all over the Region, except that language and cultural differences are an added complication, particularly in labour mobility. Strong efforts are needed to make the francophone population feel at home in the Region as a whole, so that the preferred options for francophone people wishing to move from rural areas or to advance in their careers lie within the Region itself. Of immediate relevance are efforts to provide bilingual services in regional centres where a significant number of people are, or become, francophone; and to attract to the urban centres firms which may wish to take advantage of the francophone presence in the area, particularly decentralization of federal government operations, in which francophone people of the Region clearly have an important national role.

Strategic Themes

A number of major themes for an economic development strategy for the Atlantic Region will be apparent from the foregoing review. The Council has received, considered and selected many recommendations and suggestions from business, labour and professional people in elaboration of these themes, as detailed in brief context in the chapters following. In presenting them it is readily acknowledged that the extensive range of subjects has precluded exhaustive research and consultation on many detailed recommendations, and that the onus for taking initiatives in every case implies a responsibility for the exercise of good judgement. In the variety of measures recommended the Council confesses also to a propensity toward too many rather than too few, but in the belief that the course suggested, if acted upon in orderly fashion, will materially reverse the Region's drift into dependency.

The major themes recommended are:

1. That the federal government and the four provincial governments give priority to enhancement of the range of economic activity derivable from the Region's natural resources and other established assets, particularly to improve productivity, technological competence, export potential and entrepreneurial initiative related thereto.
2. That the federal government assign to the Atlantic Region significant economic roles in the national economy, and in the housekeeping operations of the national government, and that private sector investment be induced within the Region related to these roles, on a scale sufficiently complementing (1) above to reduce the Region's high degree of dependency on federal transfer payments to reasonable tolerances within ten years.
3. That the people and governments of the Region, within their own spheres and by establishing consultative organizational arrangements between them, collaborate on a continuing basis in: determining regional positions on national issues whenever provincial positions permit; identifying regional projects of mutual benefit; reconciling inter-provincial differences; cultivating a sense of the worth and identity of each citizen, each province and of the Region in Canada; establishing complementary programs in professional education, manpower training and cultural encouragement; and adopting and pursuing a regional economic strategy that would best accord with the strategy and aspirations of each of the four provinces.

These basic themes have been defined not to be mutually exclusive but to indicate, in the absence of a regional political entity, the many areas where the Council feels primary and supporting responsibilities lie in pursuing a desirable economic development strategy for the Region in the Canadian federal system. In the chapters following, means of according the Region a number of national economic roles are identified and major economic issues discussed; business and industry, including the resource sectors and supportive infrastructural framework, are reviewed and measures recommended; broad economic goals and some specific objectives for the eighties are suggested; and a chapter is devoted to the challenge for the people of the Region.

CHAPTER 4

NEW DIMENSIONS FOR THE REGIONAL ECONOMY

National Economic Roles for the Region

It is the Council's conviction, as indicated in earlier chapters, that without deliberate change in national policy the Atlantic Region is unlikely through its own efforts and known resources to achieve a marked improvement in its economic condition in the next ten years. It looks to federal representatives and provincial governments of the Region to seek a renewal of the Canadian federation with a new set of understandings which would include recognition of the need of the Region to assume more important economic roles for the nation and to be accorded a fair share of national economic activity. At the same time it will continue to depend on federal revenue-raising and distributive powers at least until its enlarged economic roles are in effective operation. To the extent possible these roles should be designed to relate directly with the Region's natural assets. Other roles, whose location anywhere in Canada is a matter of arbitrary choice, must also be vigorously sought to enhance the range of job opportunities for a better balanced labour force and a working partnership in Confederation.

A significant element of national economic activity, and one warranting special attention in this context, is the family of distinct operations and functions that serve the whole complex of local, regional and head office operations of the national government, national corporations and other national organizations. Usually located for convenience at or near Ottawa or head office, as the case may be, some of these operations and functions are detachable, or by conscious corporate decision feasible to set up initially elsewhere in the country. Invariably there is an economic cost involved, usually greater for relocating an existing operation than for establishing a new one. Examples may include component fabrication; laboratories for research, development and testing; clearing house operations; manual and handbook preparation and maintenance; direct mailing campaigns; cataloguing; and statistical analysis and data processing. Whatever the appropriate candidates may be for the individual organization

to consider for regional locations, the factors tilting the decision in favour of one location over others will usually include ease of transportation and communication, availability of local skills, tax advantages, and costs of serviced land and office space. The Canadian experience has been that excessive centralization of such functions has a compounding effect in exacerbating regional disparities. Since the regional extremities of a country so horizontally extended as Canada are at a continuing disadvantage in competition for such operations, the need for attitudinal reminders and conscious national attention on a continuing basis is evident. The national government can influence corporate behaviour and attitudes to this end in a number of ways, particularly by:

- (a) moral suasion - defining concepts of good corporate citizenship in a federated country,
- (b) incentives and penalties,
- (c) setting a good example in its own operations, and
- (d) demonstrating that general taxes can be cut as the slow growth regions are enabled through an enriched mix of economic activity to become less of a tax drain on the rest of the country.

The Government of Canada has begun to show a good example to national corporations in its recent decisions to relocate a number of federal operations from Ottawa to regional locations. To date there is little evidence of its will to apply moral suasion or incentives and penalties, nor has it demonstrated success in the case of the Atlantic Region in reducing the tax drain. While the Council considers it relevant in a time of national self-examination to raise these matters, it appreciates that national attention must be complemented by initiatives from the Region itself to make it attractive for "national" operations to relocate, and indeed to cultivate specialist capabilities that would be sought after by national corporations and organizations.

Among the national roles for the Region which may be considered in consultation with provincial governments and the private sector are the following:

- (a) building centres of excellence in certain aspects of world-scale marine endeavour, particularly in gaining access to the underwater resources of the Continental Shelf;
- (b) managing the extended fishing limits of Canada to create in the Region a much expanded and diversified fishing industry complex as a matter of national priority in food production, comparable in today's terms with the challenge of the prairies a century ago;
- (c) having the Region perform a fair share of national-scale operations of the Government of Canada and of national corporations and other organizations;
- (d) establishing a complex of high-energy-using industries in Labrador, where hydro potential is large but transmission costs to distant metropolitan centres are high;
- (e) developing, as a vital component of a national industrial strategy, a manufacturing base in the Region by encouraging through various means
 - (i) a consciousness on the part of major national manufacturing companies that a healthy regional economy is essential to the health and continued stability of the national economy,
 - (ii) branch plants for high-value, low-bulk products for the national market (e.g., Northern Telecom),
 - (iii) production and assembly plants of foreign multi-nationals for export primarily to the North American market (e.g., Michelin Tire),

- (iv) consortia ventures for export that would include regional firms and assembly locations, and
- (v) more diversified processing of the primary products of the Region;
- (f) continental gateway transportation, both for import and export;
- (g) receiving terminal and base of operations for LNG shipments from the high Arctic Islands; and
- (h) a research and development centre for unconventional means of energy generation.

The foregoing list is intended to be neither exhaustive nor definitive, but rather illustrative of the broader economic basis on which the Atlantic Provinces might view a satisfactory future in a renegotiation of Canadian federalism.

Federal Reorganization for Federal-Provincial Relations

Regional economic disparities in Canada are inseparably part of federal-provincial relations and at the heart of the national unity crisis. Creation and management of policies directly affecting regional economic development have evolved through the course of Canadian history to be shared federally by so many departments that only the Prime Minister may be said to be personally responsible for all of them (apart from the collective responsibility of the Cabinet). These diffuse responsibilities are manifested in such forms as transportation subsidies of the Minister of Transport, equalization payments of the Department of Finance, policies for particular industries largely confined to a single region, and the special measures of the Department of Regional Economic Expansion to combat regional economic disparities.

The importance of the field of regional economic affairs in Canada is evident in the growing practice and necessity in recent years to hold federal-provincial conferences at the ministerial level and also at the level of First Ministers. Although there is clearly a focus of federal orchestration in the Prime Minister's Office, the field now appears to warrant at least equal place among the great national responsibilities of defence, external affairs, and finance. In present Canadian circumstances such a vital responsibility would appear also to require the attention of a major federal department with consolidated legal responsibility for existing measures and for such others as may be required, headed at the Deputy Prime Minister level. Constitutional change is not necessarily implicit in this proposal, although there may be other reasons for it. There are already a Deputy Prime Minister and a Minister with special responsibility for federal-provincial affairs. What is lacking is the concentration of federal power and legal status for management of the whole field of regional economic affairs as an expression of the national will to survive. Accordingly, it is recommended that a greater commitment be made at the federal level to regional economic balance in Canada, by establishing a major department at the Deputy Prime Minister level with overall responsibility for regional economic affairs, including all existing federal programs for balanced economic opportunity in Canada, such as transportation subsidies, equalization payments and special measures (DREE), as well as for additional measures as may be required through federal or federal-provincial action from time to time to redress and avert imbalances.

This recommendation is not an implied criticism of the conduct of DREE in carrying out special measures in regional development over the past ten years. As the Council has endeavoured to show in previous chapters, the combined federal efforts to eliminate regional disparities have not in the end been sufficient. Despite DREE's substantial efforts, the relative economic position of the Atlantic Provinces has not improved, and its degree of dependency on federal transfer payments increased. Despite the federal co-ordinating responsibility given DREE by statute, its ability to function has been subject to control by other federal departments with their own responsibilities, particularly financial control, and its power did not extend to the decisions for the restructuring of the regional economy on the scale required. It has made extremely valuable contributions, in the form of assistance to

infrastructure and resource sector management, to provincial capability to realize more wealth from provincial assets. Its regional development incentives program for assistance to manufacturing and processing operations in the Region, while not notably effective, is a continuing requirement, in the Council's view, but with modifications as suggested in Chapter 6. As a separate department, however, DREE would no longer be needed if the proposed Deputy Prime Minister's department were to be established, and its functions should be absorbed into the new department so that the supportive role to the provinces through special measures would be retained but orchestrated with the larger federal-provincial and regional economic balancing responsibilities.

The role envisaged for the new department would undoubtedly require a much greater federal commitment to regional development than the 1.1% of the national budget now afforded for DREE. However impressive the cumulative expenditures of DREE in the Atlantic Region may appear in announcements from time to time, on an annual basis DREE's assistance to the Region is roughly comparable to any one of the following: the annual operating expenses of the Department of External Affairs; half of annual costs for military pensions; the cost of four new buildings in Ottawa-Hull; or the cost of four or five Orion anti-submarine aircraft.

The Council is not in a position to suggest an annual budget figure for the combined regional development efforts of the proposed new department, nor is it proposing a financial solution to regional development problems. The value perceived in the proposed federal reorientation to these problems is in focussing federal ability to address them as a matter of national urgency. Such an approach would include more deliberate use of national economic powers; directed programming of federal departments which are now in a position to veto initiatives of DREE and the provinces; better use of funds now used for make-work purposes; and progressive redirection of the transfer payment system itself. Evidence of serious commitment and concern about the regional disparities of the Atlantic Provinces and others with periodic afflictions of the same malady would be seen in the adoption of performance targets for regional economies, in relation to the national economy, leading to elimination or significant reductions in degree of dependency over reasonable periods of time.

Establishment of the proposed new department would not eliminate the need for federal line departments whose economic and political balancing functions would be transferred to it. These departments would retain their national programs such as maintenance of airport services and preparing the national budget, and preferably might retain also the capability to implement some, if not all, of the programs of the new department oriented to regional economic balancing. Funding for all the purposes and programs of the new department, however, would be the responsibility of the Deputy Prime Minister, who would defend his annual estimates in the House, and any implementation by other departments would be enabled through funding transfers. The new department would also have responsibility for screening other departments' programs for their impact on regional balancing issues, so that co-ordination of government actions for this purpose would not be unduly frustrated by organizational friction.

The Council is mindful of the ability of any federal government of the day to dilute or sacrifice a commitment to regional balancing of national economic activity at the behest of a majority from the wealthier provinces. Reconstitution of the Senate as a safeguard for regional interests is accordingly supported, provided that it is appropriately empowered and accountable for the job.

Of at least equal consequence, in the Council's view, would be the need to formalize federal-provincial consultation and co-operation on a continuing basis as one of the principal responsibilities, on the federal side, of the Deputy Prime Minister. In regional development the mechanism for annual reviews by the DREE Minister and the Premiers could be broadened to include all policies affecting development, to review progress of major programs of joint interest, to plan for the following year before federal and provincial budgets are struck, and to collaborate on matters of mutual benefit. The consultative mechanisms would not be designed to weaken the Parliament of Canada or provincial legislatures, but only to enable them to function more harmoniously in their many areas of common interest.

Major Economic Issues for the Region

A number of broad economic questions are of particular importance to the Atlantic Provinces, whether or not the proposed new department is formed. These are discussed briefly here as well as in later chapters, where more detailed recommendations related to them are given, depending to some degree on the manner in which these major issues are resolved.

Offshore Resources

Perhaps foremost among these issues is the question of ownership and control of offshore resources. The Council has not itself carried out studies of the implications of this question, but recognizes that it is one of fundamental long-term importance for the Atlantic Region.

Provincial ownership of land-based resources, secured by Section 109 of the British North America Act and its 1930 amendment, is the cornerstone of provincial wealth-creating activity, though still subject to federal taxation powers. All provinces but the Maritimes have very large land areas, and even Newfoundland, which has three times the land area of the Maritimes combined, is only about 60% of the area of the next largest province (Manitoba). The Canadian portion of the Atlantic Continental Shelf is approximately the size of Canada's largest province (Quebec).

For provinces whose resource frontiers and substantial prospects for self-development lie in offshore resources, the ownership question is a matter of jurisdictional dispute. It is the Council's view, pending resolution of the question either by court settlement or negotiations on the future of the Canadian federation, that prolongation of this dispute is having seriously damaging effects on major industrial prospects emerging for the Atlantic Region, and that federal-provincial co-operation is essential now to ensure that the principal benefits from offshore resources flow to the Atlantic Region.

Although coastal and inland fisheries have been a federal jurisdiction since 1867, management of the resource has taken on much new significance for the Atlantic Provinces since the declaration of Canada's 200-mile zone in 1977. Federal-provincial friction is already apparent in fishery management issues and, according to representations heard by the Council, the effect is to inhibit important investment decisions for the Region. No comprehensive fishery development plans have yet been put into effect as have been possible through DREE assistance in other primary sectors and tourism. Since the East Coast Canadian fishing industry concerned is located almost entirely in the Region, it is the Council's view that the management should reside in the Region also and that the Atlantic Provinces should participate with the federal authority in a joint management commission. It is recommended that all units of the Department of Fisheries concerned with the East Coast fishery be relocated from Ottawa to the Region, that a joint management commission be established as soon as possible, and that comprehensive fishery development plans be organized for each province.

Other Marine-Based Industry

The Region's prospects for world-class industry based on offshore and Arctic resources warrant a high degree of national and regional enthusiasm. Among the factors to be considered are:

- (a) the exercise of sovereignty in Canada's Arctic and Continental Shelf waters;
- (b) Canada's \$7.6 billion external services deficit, much of it incurred in the use of foreign ships to carry its international trade;
- (c) the possibility that the most economical way of bringing natural gas from the Arctic Islands is by icebreaker tanker systems based in Atlantic ports;
- (d) of all Canadian provinces, only the Maritimes lack a "North" and might therefore be accorded special economic interests in the resources of the Arctic Islands;

- (e) in contrast to the rest of Canada, the Atlantic Provinces are traditionally marine-oriented, and have already in being the nucleus of technological capability (including steel) for an expanding set of marine-based activities; and
- (f) the sum of marine-based possibilities constitutes the most likely source for the Region of an integrated, world-scale manufacturing base generative from its own needs in contrast with present dependence of industrial development efforts on the subsidized local consumer market and efforts to attract footloose industries.

Obviously such considerations extend beyond the period of the eighties under review. It is the Council's belief, however, that if such a pattern of development for the Region were undertaken during the eighties, the Region's attractiveness for private investment would be markedly enhanced. The Council accordingly recommends that the Atlantic Provinces endeavour to reach an early collective decision with the national government, in the context of renewing the Canadian federation, to make the Atlantic Region the Canadian centre for marine-based activities on the East Coast of Canada, including oceans and Arctic research, hardware development, transportation of liquified natural gas from the Arctic by sea, offshore and Arctic sovereignty, exploitation of offshore resources for maximum continuing benefit of the Region, shipping and shipbuilding activities related to these activities and Canada's international trade based on the needs of these activities and resultant export potential.

Technological Requirements and Opportunities

Rather than prepare a catalogue of technological shortcomings on all fronts of the regional economy, the Council believes it would be more useful in a strategic sense to attempt to define the activities for the future in which the Atlantic Region might strive to cultivate a family of highly specialized technological capabilities. This would be useful both in applying importable technology and in innovating to solve

problems unique to the Region's economic opportunities. It is not to say that other efforts in technological advance for the Region are to be discouraged, but only that achievement of excellence in some aspects of national and world demand that the Region can supply is likely to be more rewarding than mediocrity in many fields already the preserves of others. Excellence in a few roles is likely to be difficult enough, in view of the comparatively weak technological base of the Region. Renewed national emphasis on research and development, in view of the declining competitiveness of Canadian manufacturing, makes this a propitious time for the Region to seek and merit its due share of attention in the interests of strengthening both the regional and national economies.

There are many scientific and technological challenges to be met in "frontier" opportunities for the Atlantic Region, among them:

- (a) establishment of a rational management plan for the Atlantic fishery, founded on a rigorous understanding of the resource and using the most appropriate catching, processing and marketing methods to maximize long-term economic return;
- (b) increased exploration for offshore oil and gas reserves and development of systems, particularly in ice conditions, for their production and transportation to market;
- (c) development of Arctic resources shipping, through the design, construction, operation and management of shipping systems capable of year-round operation, including the development of a system for the transport of natural gas from the Arctic Islands by LNG tankers;
- (d) establishment of marine service systems to enable the exercise of jurisdiction over the Arctic and eastern coastal areas and to support shipping, fishing and petroleum activities, including systems for vessel traffic management, forecasting and dissemination of information and capabilities for search and rescue and environmental clean-up; and

- (e) determination of the potential for development of the resources of Labrador, particularly in view of the extraordinary value inherent in the combination of hydro-electric power, minerals, forest and petroleum resources that might be brought together at tidewater for processing and manufacturing purposes.

Full regional participation in these activities may ultimately depend on developing and demonstrating greater skill than others in dealing with the challenges. Achievement of technological sovereignty in critical fields, moreover, offers the best prospects of deliberate realignment of manufacturing and service industries in the Region to focus on the processes and equipment necessary for exploration, extraction, processing and transportation of its frontier resources. In the Council's view, the Atlantic Provinces would be well advised to seek accord on the strategic advantages of complementary specialization in developing their technological capability.

Marine Technology

Professional advice to the Council indicates that the goals of the Canadian Oceans Policy of some five years ago are not being satisfactorily met through extrapolation of existing organizations and programs, and that adequate policy response might best be achieved by the creation of a new organizational framework with a clear mandate to establish, manage and support the programs required.

It is recommended that a federally funded program be established for the clear purpose of promoting the development of a marine technology-based industrial and service complex, capable of meeting the challenges already discussed and those of the future. It is further proposed that a new agency be established to organize and manage the program. The agency's objectives would be those set out in agreed policy statements and its operating mandate would include:

- (a) the ability to meet all costs of worthy research and development activities in industry, universities and other institutions;

- (b) the capacity to support educational and training programs necessary to the accomplishing of its national and regional goals;
- (c) the freedom to enter into any agreements it sees as necessary or important to stimulate the development of commercial marine activity in Canada, such as grant support, joint venturing, taking equity positions, selecting chosen instruments, etc.

It is suggested that the agency be established as a Crown Corporation, somewhat along the lines of the Canadian Ocean Development Corporation (CODEVCO) proposed by the Science Council of Canada in Report 10, but with provision for the federal and all of the provincial governments to take equity positions. Its officers and board of directors would be appointed by the shareholders, largely from outside government.

The corporation, for convenience identified as CODEVCO, would be set amongst and linked to appropriate advisory, policy and fiscal bodies. The existing Panel on Ocean Management, consisting of senior representatives of twelve federal departments, is proposed to have the responsibility to formulate and seek approval of the policy and guidelines which would constitute the mandate of CODEVCO, and advise the Federal Treasury Board on appropriate levels of support. It is envisaged that the level of funding would be in the order of \$10 million per annum initially, rising to \$50-100 million per annum in five years.

One other new organization is proposed, the Canadian Advisory Panel for Oceans Development. Its role would be to review policy and needs and formulate advice on policy matters concerning ocean-related development. It would be federally funded and its membership drawn primarily from industry but also from federal and provincial governments and from the universities.

Productivity

For the medium and long term, as the Economic Council of Canada has noted in its report "Living Together", the Region should move to correct a consistent lag in attaining national or better levels of productivity and in adopting new technology geared to rapidly changing conditions in world trade. The aggregate view tends to malign unfairly the Atlantic Region worker and to inhibit investment on account of a reputation by no means entirely of the Region's own making. The Council is aware of examples of plants in the Region in which productivity levels are on a par with, or better than, those in plants elsewhere in the country and the world virtually identical in scale and managerial method. It is the Council's view that managerial and entrepreneurial awareness in the Region has much to answer for in low productivity levels, and that much of the onus for correction lies within the Region. Management training programs could be particularly helpful, but must be complemented by the raising of regional awareness levels to accept the demands of a competitive world and to correct the shortcomings of the regional business community, political institutions and educational and training systems. Closely related, in the Council's view, is the need to foster indigenous entrepreneurship at the farmer, fisherman and student levels as well as in the secondary and tertiary sectors of the regional economy. Until a richer mix of economic activity is cultivated in the Region, however, to eliminate present high unemployment and under-employment levels and enlarge regional output, productivity is bound to remain low and to appear to reflect unfavourably on regional economic potential.

Distant Hopes and Immediate Needs

Much as it may appear that the Council is focussing on distant hopes for the Region, it is aware of the urgent necessity for short-term measures to strengthen present productive capability, to keep enterprising and skilled elements of the labour force in the Region, and to minimize business uncertainty in the face of an economic recession and a number

of severe economic shocks, particularly in Newfoundland. In an earlier paper these concerns have been brought to the attention of the Minister and his Cabinet colleagues from the Atlantic Region. It has been the Council's view that short-term measures within the discretion of the Government of Canada should be designed to strengthen the Region's preparedness for its future economic roles, and that many of the projects desired for this purpose could be both labour intensive and manageable within the funds now being allocated for make-work projects and relief of the Region's high levels of unemployment. A good example of such a measure is the recent decision to salvage wood from budworm-infested areas of Cape Breton and to reforest with more resistant tree species. Other desirable short-term measures that might be considered include more intensive biological surveys and exploratory fishing, area resource inventories, and a trans-Labrador road.

In preparing its regional strategy for the next decade, the Council is convinced that there is much scope for economic growth in Atlantic Canada, both within the means of the Region itself, supplemented by regional development assistance, and within the complementary context of managing the national economy to ensure a fair share of national economic activity for all regions of the country. If the latter commitment to the Atlantic Region can be negotiated in talks now intensifying on the future of the Canadian federation, it may well take a decade or more for adjustments to be made in the national economy to produce tangible results for the Region. In the meantime first priority must be given to cultivation of the Region's resources and existing capability, which in turn would gain confidence and sustenance from the revitalized national commitment.

CHAPTER 5

PRIMARY RESOURCES - TRADITIONAL MAINSTAY, NEW CHALLENGES

PART I - GENERAL SURVEY

Although its natural resources have not proven sufficient to generate and sustain in the Canadian context the standard of living now enjoyed by people of the Region, the Region's resource endowment is considerable and has been much enhanced in recent years by new prospects in the fisheries and renewable energy.

The Atlantic Provinces have a population of about 2.2 million and a land area of over 200,000 square miles. Nova Scotia and New Brunswick are each comparable in area with the more settled parts of either Ontario or Quebec, and together with Prince Edward Island and Newfoundland are contiguous to some 625,000 square miles of continental shelf. Though the Maritimes, unlike all other provinces, lack a "north", Labrador is part of the Atlantic Region and the Arctic Islands could be considered within the Region's economic sphere of interest. Though all but separated from the rest of the country by the State of Maine and the wilds of northern Quebec, the Region has road, railway and power connections between New Brunswick and southern Quebec, as well as with Maine, and air and telecommunications links (though not yet a pipeline) with the rest of Canada. It is the part of Canada closest by sea and air to Europe, and by sea to all countries of the Atlantic rim. Its resource endowment in forests and fisheries is considerable, and the limits of its potential for mining, tourism and agriculture have not been reached. It has substantial reserves of untapped renewable energy sources, and has prospects for self-sufficiency in coal and possibly oil and gas offshore for many years' usage.

The Region's dependency on primary resources and resource-based manufacturing is demonstrated in Tables 19, 20 and 21. With the exception of Prince Edward Island, the percentage of employees in primary production is similar to the Canadian average. Table 20 shows the degree of dependency of the Region on resource production and processing in comparison with Ontario. The ratio of resource-based to total manufacturing is particularly striking in relation to Ontario. The relative importance of each sector is shown in Table 21 for each province of the Region.

While the Council advocates greater diversification of the Atlantic Region economy through manufacturing (including more sophisticated processing of indigenous raw material) and use of federal powers in the management of the national economy, it is by no means belittling the effort required within the Region, and with regional development assistance, to make better use of the natural resource endowment. For the provinces and people of the Region, this is a matter of first concern. If the Council's strategy is accepted and vigorously pursued, however, the percentage of gross regional product attributable to primary production would likely diminish, though its absolute value should continue to rise. Table 21 indicates that such trends are already noticeable. How to improve the growth in absolute value of yearly primary production is the principal concern of this chapter.

The Council's Resources Committee recently visited three Scandinavian countries and, with due regard for differences in socio-economic evolution, were astonished to observe at first hand how people obliged to rely on intelligent use of a resource endowment and geographic orientation comparable to Atlantic Canada's have attained world prominence in standards of living, technological specialties and cultural expression. Forests in Sweden are cultivated, and technology in forest-based industries is exported to many countries of the world. Swedish mines have not had a case of silicosis in 20 years. Quality fish products in Norway are a matter of national pride. Regional development policies in Norway are deliberately structured to provide living conditions of equal value for all residents, regardless of location, even in the Arctic. Minimum educational qualifications are applied in Denmark for eligibility for financial assistance in farming. The Danes have been selling canned mussels and frozen cod tongues in Newfoundland.

TABLE 19
Percent of Total Employment
In the Various Industrial Sectors, 1977

Provinces and Canada	Primary Industries	Manufacturing	Support	Services	Total
Newfoundland	9	11	21	59	100
Prince Edward Island	16	7	18	59	100
Nova Scotia	7	14	17	62	100
New Brunswick	7	15	19	59	100
Atlantic Provinces	8	13	18	61	100
Canada	7	20	15	58	100

Source: Statistics Canada "Labour Force Survey",
Table 57, Annual Averages 1977.

TABLE 20

Contribution of Resource Industries and Resource Based Manufacturing to
Gross Provincial Product - 1973 and 1975

(percentages)

	Resource Industries (a)		Resource Based Manufacturing		Total Manufacturing		Resource Industries + Resource Based Manufacturing (b)	
	1973	1975	1973	1975	1973	1975	1973	1975
Newfoundland	21.3	24.0	9.9	8.2	12.6	10.7	31.2	32.2
Prince Edward Island	17.5	14.0	6.5	5.8	7.9	8.2	24.0	19.8
Nova Scotia	8.7	8.1	7.8	8.2	15.8	17.3	16.5	16.3
New Brunswick	12.2	9.1	13.5	13.9	19.1	18.9	25.7	23.0
Maritime Provinces	10.6	8.8	10.1	10.5	16.6	17.5	20.7	19.3
Atlantic Provinces	12.9	12.1	10.0	10.0	15.8	16.0	22.9	22.1
Ontario	6.6	6.0	7.2	6.8	31.7	30.0	13.8	12.8

Sources: Statistics Canada 61-202, "Survey of Production"; 31-203, "Manufacturing Industries of Canada"; and 13-213, "Provincial Economic Accounts".

- (a) Resource industries include agriculture, forestry, fishing, trapping, mining and electric power.
- (b) Resource based manufacturing includes fish processing, other food processing, tobacco products, wood industries, pulp and paper, other paper industries, and non-metallic mineral products.

Contribution of Resource Industries to

Gross Provincial Product (a) - 1970 to 1975
(\$ millions) (% percentages)

PROVINCE	1970		1971		1972		1973		1974		1975	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Newfoundland (b)												
Agriculture	-	-	-	-	-	-	-	-	-	-	-	-
Forestry	22.1	2	18.9	1.5	24.4	1.8	29.3	1.9	37.4	2.1	36.6	1.8
Fisheries	36.1	3.1	36.8	2.9	35.5	2.8	47.9	3.1	42.9	2.4	45.7	2.2
Mining	188.7	16.1	180.6	14.2	132.5	10.0	167.1	10.7	212.6	11.7	296.1	14.1
Total Primary	246.9	21.2	236.3	18.6	192.4	14.6	244.3	15.7	292.9	16.1	378.4	18.1
G.P.P.	1,170.4		1,271.3		1,324.7		1,560.3		1,818.2		2,096.7	
Prince Edward Island												
Agriculture (b)	28.2	11.8	18.0	7.0	26.8	9.3	45.7	12.4	64.7	16.9	42.9	9.6
Forestry	-	-	-	-	-	-	-	-	-	-	-	-
Fisheries	11.2	4.7	10.4	4.0	10.1	3.5	12.4	3.4	12.0	3.1	12.4	2.8
Mining	.1	0.02	.1	0.03	.4	0.1	.2	0.1	.1	0.03	-	-
Total Primary	39.5	16.5	28.5	11.1	37.3	13.0	58.3	15.8	76.8	20.1	55.3	12.4
G.P.P.	238.8		257.2		287.8		368.3		382.5		447.4	
Nova Scotia												
Agriculture	39.7	1.8	34.7	1.5	42.8	1.6	54.5	1.8	51.6	1.5	58.9	1.5
Forestry	11.6	0.5	11.9	0.5	12.4	0.5	15.0	0.5	20.6	0.6	20.4	0.5
Fisheries	55.6	2.5	59.4	2.5	67.9	2.5	76.0	2.4	81.1	2.3	91.0	2.3
Mining	58.5	2.6	63.5	2.7	62.0	2.3	68.9	2.2	87.0	2.5	77.7	1.9
Total Primary	165.4	7.5	169.5	7.2	185.1	6.8	214.4	6.9	240.3	6.8	248.0	6.1
G.P.P.	2,218.9		2,357.6		2,704.6		3,120.1		3,518.3		4,037.6	
New Brunswick												
Agriculture	38.9	2.4	33.1	1.9	37.8	1.9	63.3	2.6	80.7	2.9	50.5	1.6
Forestry	32.9	2.0	36.3	2.0	40.5	2.0	60.8	2.5	72.8	2.7	64.0	2.0
Fisheries	17.6	1.1	16.4	0.9	20.0	1.0	22.2	0.9	22.1	0.8	25.5	0.8
Mining	35.1	2.2	37.8	2.1	39.8	2.0	73.5	3.1	84.5	3.1	79.5	2.5
Total Primary	124.5	7.6	123.6	7.0	138.1	6.8	219.6	9.2	260.1	9.5	219.5	6.8
G.P.P.	1,636.0		1,775.5		2,040.4		2,393.2		2,742.6		3,224.2	

Source: Statistics Canada Cat. Nos. 61-202 and 13-213 (latest data available at time of writing)

(a) Excluding electric power and trapping.

(b) Figures not available due to small samples.

In all Scandinavian countries visited, "industry for the people" is a policy actively pursued, in which the profit motive is recognized in a basically free enterprise system. It is also enhanced by the co-operative participation of business, labour and government in preference to confrontation. Between Scandinavian countries there is much co-operation in development and sharing of technology in areas of common interest. None of these countries is without problems, nor is it the purpose of Council to advocate that Scandinavian models are transferrable to the Atlantic Region. Rather, it is to indicate that much higher levels of economic activity and cultural as well as physical well-being are possible for the Atlantic Region through the use of its resource endowment than have been attained to date or likely with uncaring attitudes towards the land, the oceans and related occupations. The Council's conviction is that the Atlantic Provinces can learn to develop their own models, out of their own condition and mix of blessings, and that any serious development strategy for the Region must also be dedicated to the enrichment of that learning process. If all else failed and the people of the Region were to stay and with will and purpose successfully avoid re-colonization, the Region could still reasonably aspire in the long term to a Scandinavian role in North America.

In the four principal primary sectors of the regional economy, agriculture, fishing, forestry and mining (to be reviewed individually later in this chapter), the Council is concerned mainly with the reorientation of these sectors to a developmental philosophy consistent with present conditions and the needs and capabilities of the people most directly involved. At the heart of the problem, in the Council's view is the need to adapt more enterprisingly to technological possibilities and to concepts of diversification and husbandry, however excusable it was to plunder the most accessible resources in pioneer days.

In stressing new economic roles for the Region elsewhere in this report, the Council does not wish to overlook opportunities for technological innovation, product diversification and improved marketing in what have been the basic industries of the Region for many years. It should be possible

also for the Region to gain a foothold in innovative attempts to develop unconventional means of generating energy from sources natural to the Region. Of particular importance, whether through borrowed or innovative technology, is the need to cultivate industrial engineering and product development for further processing of regional resources in anticipation of likely tariff changes, increasing energy and transportation costs, and growing competition from third-world countries.

Council has noted the announcement on June 1, 1978, by the Minister of Science and Technology of a series of objectives and measures that would see research and development expenditure in Canada increase from its present level of less than 1% to 1.5% of GDP in five years. These intentions include provision for more research to be done by the private sector, for assistance in the development of regional centres of excellence and for increased funding for university research. The improved research environment, taken together with announced budget measures, is of particular interest in a development strategy for the Atlantic Region's resources.

Agriculture and fishing in particular have been extremely disappointing to many people of the Region and it is noteworthy that there has been a reduction in total agricultural production in the Region for many years while attempting to respond to technological models designed for conditions elsewhere. In fishing, Canada has been one of only three of the 25 major fishing nations of the world to have experienced a reduction in landings in the 1970-75 period, and fishing stocks available to the Region have been seriously depleted in recent years by foreign fishing efforts. Both agriculture and fishing have major potential for the Region in food exports on a scale which should excite much technological and investment interest.

Forest industries and mining have performed steadily and account for much of the Region's earnings. Forest management practices, however, have been minimal, and mining outputs continue to be shipped from the Region in raw or semi-processed form.

Units of enterprise involved in the primary sectors range from the individual fisherman and farm family (often on a part-time basis) to the multinational corporation. Problems for technological adaptation and innovation range from finding an efficient method of drying squid to controlling the spruce budworm and improving health and safety in mines. Expanding primary production alone would be a self-limiting exercise without commensurate effort in processing, marketing and tariff negotiation, and attention to the adequacy of returns per unit of enterprise. While the Council has endeavoured to be realistic about the scale of the problems involved, it is convinced that the people and governments of the Region must accept the primary responsibility for the reorientation of the resource sectors, press for sympathetic and supportive federal policies, and learn from others and within themselves how to cultivate more value from the resource endowment of the Region.

In the Council's view, the role of the national government is a supportive one in resource matters, since the national interest is being served by assisting each province to a greater measure of self-sufficiency and more productive effort for the national good. The means open to the national government are two-fold: through regional development programs as now operated by the Department of Regional Economic Expansion; and through the exercise of the traditional powers of Canadian jurisdiction for such purposes as research and technology development, tariff negotiations with other countries, facilitating exports, patrolling Canadian waters in the interests of national sovereignty, and improving national transportation systems. It is Council's contention that these two-fold means warrant more intensive and directional use in the Atlantic Region because of the economic condition of the Atlantic Provinces in relation to the rest of Canada.

Canada's research efforts in resource fields for the Region can be improved at little or no additional cost. Decentralization of further research components of federal departments concerned would increase the scientific nucleus in the Region and complement the work of universities. It is suggested that different areas within the Atlantic Region

specialize in research and development in a given sector. The various federal research facilities already in the Region could be affiliated with provincial universities. The benefits include flexibility to change research activities to meet changing needs in the Region, application of findings to needs of users, career opportunities for university graduates (many of whom are now trained for careers outside the Region), and the potential for technological leadership in specialized fields of resource interest. Reciprocal agreements between the provinces would enable some of the course work toward degrees to be conducted in the home province of the student, and the fee structure would apply equally to students from all four provinces. Any initial capital costs should be cost-shared by the federal government on regional development grounds.

As indicated earlier in this report, the Council looks to each of the four provincial governments for enlightened leadership in the enhancement of resource utilization within their jurisdictions, and for co-operative joint action between them when the purposes of more than one province can be better served. This is not to imply a gradual moulding of provincial resource management into a regional form, but rather to take advantage of the proximity of the four provinces in minimizing costs and to leave no opportunity for the national government to withhold assistance for projects on a regional scale on grounds of intra-regional inertia or rivalry.

The Council has not attempted to take inventory of regional resources nor has it attempted to catalogue business opportunities in resource fields. From a strategic point of view it is concerned that maximum sustainable economic use be made of resources at hand, in support of the settlement pattern already established in the Region, and that efficiency in producing and processing its resources within the Region be strengthened as a first principle in attaining a sophisticated regional economy.

PART II - AGRICULTURE

There are 14.1 million acres of soils suitable for general arable use in the Atlantic Region, of which 1.5 million may be considered prime agricultural land. In 1976 approximately 2.7 million acres were in use as farms, and approximately 1.2 million acres of these farms were improved land. Low fertility affects 98% of all soils, necessitating continuing expenditures at increasing cost for lime and fertilizer. Other limiting factors of the natural endowment include poor soil structure, stoniness, excess water, steep topography, relatively short growing season, and a cool and damp climate somewhat conducive to plant diseases, all of which in various combinations determine the range of crops which can profitably be grown in the Region. Much potential agricultural land is forest-covered, and much of the improved land is in holdings too small for optimum use. Urban growth is encroaching on agricultural land which once served as local food sources, though by no means on the same scale as has occurred near the major urban concentrations of Canada. Although agriculture in much of the Maritimes is not the important industry it once was, the potential for growth within the natural limitations is considerable, even in Newfoundland, where conditions are more difficult and the agricultural tradition less well developed.

The relative importance of various agricultural commodities in the Maritimes is shown in Table 22, each of the three provinces having exceeded the \$100 million mark during the seventies. The total value of Newfoundland agricultural production in 1976 was \$20.6 million, compared to \$8.1 million in 1971, and livestock and livestock products comprise about 76% of annual farm receipts.

Much of the grain required for livestock feed is imported under freight subsidy, but local production in the Maritimes is growing in response to government stimulants, including drying and storage facilities. The long damp winters of the Region cause substantial costs for livestock farmers in housing their animals, storing their feed, and providing light and heat.

TABLE 22

Farm Cash Receipts by Province (a) , Major Commodities, 1973-76
(\$ thousands)

Commodity	Prince Edward Island				Nova Scotia				New Brunswick			
	1973	1974	1975	1976	1973	1974	1975	1976	1973	1974	1975	1976
Oats	77	106	106	112	26	33	34	38	190	282	335	330
Potatoes	31,262	41,620	24,961	48,855	2,345	2,668	2,697	3,093	39,458	46,318	31,515	41,666
Fruits	484	627	750	572	10,242	7,616	6,876	6,775	2,946	1,396	2,561	2,753
Vegetables	1,399	1,637	2,465	1,809	2,911	3,042	3,729	4,274	1,975	2,572	2,956	3,269
Floriculture & Nursery	1,355	1,570	1,392	1,419	4,278	5,471	6,975	7,529	1,094	1,044	1,931	1,933
Other Crops	4,159	5,234	4,404	7,103	2,271	2,328	2,132	1,996	1,750	2,052	1,755	2,281
	38,736	50,794	34,078	59,870	22,073	21,158	22,443	23,705	47,413	53,664	41,053	52,232
Livestock	23,741	20,196	26,639	26,250	26,045	23,852	28,562	28,469	16,752	14,290	15,217	15,828
Livestock Products	8,488	10,303	13,316	14,592	45,970	54,724	60,064	64,846	28,147	30,886	34,110	40,305
	32,229	30,499	39,955	40,842	72,015	78,576	88,626	93,315	44,899	45,176	49,327	56,133
Other Income	2,339	3,400	9,394	4,157	2,411	3,803	5,167	7,009	3,510	4,393	9,663	5,602
TOTAL CASH RECEIPTS	73,304	84,693	83,427	104,869	96,499	103,537	116,236	124,029	95,822	103,233	100,043	113,967

Source: Statistics Canada - Cat. No. 21-201, "Farm Cash Receipts".

(a) Figures not available for Newfoundland.

Table 23 shows that a decline in farm acreage between 1966 and 1971 has now been reversed and a trend towards larger farms is evident. Small farms are still dominant in the Region, as indicated by Table 24, but statistics include farm units of low output that are not the sole source of productive income for the people concerned. High output from intensive farming is not uncommon in many areas, particularly Prince Edward Island, the Upper Saint John Valley in New Brunswick and Kings County in Nova Scotia.

There are market opportunities for expanded production both for local consumption and export. Leafy vegetables and root crops do well in the Region, and species are being developed to extend storage life and hence cushion vulnerability in marketing. Possibilities for growing (or in some cases merely starting) certain delicate crops under controlled environmental conditions merit continuing examination. Fruit production and specialty crops are considered to have potential for expansion, as well as such major staples as potatoes and livestock. The Region is by no means self-sufficient in many agricultural products that could be grown in greater abundance in the Region itself. Research, marketing and extension efforts are crucial to maintaining a rate of growth that more and more is being affected by rising prices, particularly for energy, but in some respects tending to favour local production.

The Role of Government

Although the degree of collaboration between Agriculture Canada, DREE and the government of each province must be rated reasonably high in providing financial incentives to farmers, agricultural policies and programs are nevertheless somewhat disjointed, with jurisdiction shared by the two levels of government. Agriculture Canada provides a substantial research service in each province, and regulates quality control in interprovincial trade. The provinces are responsible for agricultural education and land management but the jurisdiction for applied research is not clearly defined and is frequently overlooked. There is an agricultural college in Truro, Nova Scotia, which provides the first two years of a

Number and Size of Farms by Census Year

Province	No. of Farms	Total Acreage	Total Acreage Improved	Percent Improved	Average Acreage	Percent Change
<u>Newfoundland</u>						
1966	437	30,753	12,144	40	70.37	85
1971	402	52,274	15,104	30	130.03	40
1976	398	72,706	24,105	30	182.68	
<u>P.E.I.</u>						
1966	4,464	750,221	485,962	70	168.06	15
1971	3,462	667,810	443,654	70	192.90	17
1976	3,054	687,076	479,749	70	224.98	
<u>Nova Scotia</u>						
1966	4,305	1,130,184	340,280	30	262.53	9
1971	3,534	1,008,344	322,464	30	285.33	1
1976	3,441	989,037	365,353	40	287.43	
<u>New Brunswick</u>						
1966	4,419	1,217,753	469,395	40	275.57	9
1971	3,486	1,051,529	409,482	40	301.64	2
1976	3,244	994,174	424,635	40	306.47	
<u>Ontario</u>						
1966	85,183	15,340,952	10,761,916	70	180.09	4
1971	75,645	14,190,483	9,992,467	70	187.59	2
1976	76,983	14,744,324	10,707,799	70	191.53	
<u>Canada</u>						
1966	338,559	161,680,359	102,550,686	60	477.55	12
1971	299,868	160,458,577	103,730,802	70	535.10	3
1976	300,118	165,976,260	108,003,427	70	553.04	

Source: Statistics Canada - Cat. 96-800, "Census of Agriculture - Canada: Summary of Tables".

TABLE 24

Farms by Economic Class 1976, Atlantic Provinces

	Newfoundland		Prince Edward Island		Nova Scotia		New Brunswick	
	No.	%	No.	%	No.	%	No.	%
Total Farms	398	100.0	3054	100.0	3441	100.0	3244	100.0
Over \$75,000	55	13.8	241	7.9	350	10.2	247	7.6
\$25,00-\$74,999	52	13.1	499	16.3	575	16.7	574	17.7
\$5,000-\$24,999	113	28.4	1270	41.6	974	28.3	1071	33.0
\$1,200-\$4,999	148	37.2	1037	34.0	1527	44.4	1335	41.2
Inst. Farms	30	7.5	7	0.2	15	0.4	17	0.5

Source: Statistics Canada 96-801 to 96-804 "Census of Agriculture - Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick".

university degree program in agriculture and a technical diploma. It also provides short courses cost-shared with Canada Manpower and available within limits to farmers from all four provinces. DREE (in collaboration with Agriculture Canada) provides substantial assistance to each of the provincial governments for agricultural development through cost-sharing arrangements. Not surprisingly, the effect of these incentive programs, valuable as they are, has at times been to give one province an artificial advantage over its neighbour. Provincial marketing boards, federal transportation assistance for incoming feed grains, and westward delivery of regional output such as potatoes add to the picture of a myriad of assistance programs responsive to particular problems.

Research and Development

Despite the large outlay for research and extension education, the rate of technological change in regional agriculture has been slow. This is partly because the split in jurisdiction does not lend itself to a systems approach to problem solving and partly because, at the principal point of contact between government and farmer, the agricultural representative has a dual role. Agricultural representatives are now preoccupied with delivery of government assistance programs, which detract from their primary role as educators. The volume and value of agricultural production in any one province does not warrant a high degree of specialization except in a few commodities, most notably potatoes, where there is likely to be duplication between provinces. Without specialists, technology appropriate to regional conditions and potential is not likely to be developed.

The Resources Committee of Council has noted from a visit to Maine that there and in other states the research and extension roles have been delegated to universities. It is the Council's view that this principle has much merit for the Atlantic Provinces. University researchers in agriculture may draw on the expertise of other professionals to resolve problems and in turn contribute to the teaching effort on campus. Research and extension are functions more naturally

suited to a university than to a government department and, if closely integrated to meet farming needs, would enhance the contributory role of universities in the economic life of the Region. Delivery of government programs should remain with the government departments concerned.

In the Council's view, creation of a degree-granting agricultural program at one university in the Atlantic Region, to which the other regional university agricultural programs would be affiliated, is becoming a necessity to meet the needs of many students from the Atlantic Region. It is becoming more difficult to obtain English-speaking staff for Macdonald College in Quebec, to which most students from the Region have gone in the past for professional qualification in agriculture.

Land-Use Management

As earlier data indicate, many of the farm units of the Region are small holdings, highly resistant to technological change. In the period 1951 to 1961 the Maritime Provinces lost four million, three hundred thousand acres of farm land and almost forty-seven thousand farms (figures are not available for Newfoundland). Clearly sub-marginal as small farm holdings, much of this land now lost to agriculture can be brought back into modern agricultural production along with some remaining virgin land of suitable soil quality. Federal government assistance for this purpose, however, should be contingent on reasonable provincial measures for continued production through land use planning and taxation policies.

A program of graduated taxes would encourage optimum use by placing a lower rate on productive farm land. Where zoning changes occur, causing a capital gain, the beneficiary would be required to pay "back taxes" based on a formula using the new tax rate. Farm consolidation in conjunction with a land-bank program would be undertaken where there is sufficient good agricultural land to develop a viable industry. Windfall profits from land sold by the land bank because of rezoning would be shared with the previous owner based on a predetermined formula. Such a program would improve the market for agricultural land by reducing speculation, and the tax structure would encourage production.

Countries with conspicuous success in modern agriculture, such as Denmark, have vigorous land management policies that might not be practical at the present stage of agricultural evolution in the Atlantic Provinces. The Council is not advocating wholesale conversion of the agricultural land base of the Region to large corporate farms, nor overlooking the possibilities for highly intensive cultivation of small units. Rather, it is concerned that much of the loss in economic activity to the Region is remediable, and that the evident success of some agricultural processors in the Region be taken as indicative of the potential for growth in both agriculture and the manufacturing sector.

Income Stabilization & Marketing

The farmer has little control over costs of production and returns for his produce. Apart from natural hazards such as frost, hail, insects and diseases, changes in world economics and the policy of a major importing country may also affect his net income. Marketing boards, income stabilization and insurance are among the programs to help reduce risk. Integration of all three, with farmers contributing in good years, would eliminate risk to a considerable degree, provided the realities of the marketplace were kept in view. When returns in poor years were lower than established profit levels, farmers would adjust production but would be cushioned through shared risk against the normal hazards of fortune that are to be expected from time to time. Such a program already exists for the swine industry, and it is understood that the Province of New Brunswick now favours a similar approach for potato production.

There are advantages to marketing boards in providing security to the farmer and a consistent supply of food to the consumer at reasonably stable prices. Because prices are controlled, however, efficiency may suffer, since incentives for innovation and change are weakened. Marketing boards, moreover, may inhibit entry of new farmers, in view of the necessity to be granted a quota, and although a new farmer may

buy an existing farm at an inflated price to obtain a quota, he runs a considerable risk of having the quota reduced by the marketing board. It is desirable that the positive features of marketing boards be retained, but the Council would prefer a system in which both the farmer and consumer have some protection but in which the farmer would be obliged to remain alert to market forces.

Recommendations

1. That federal and provincial roles in agricultural research and extension education be delegated on suitable terms to universities in the provinces, with one university in the Region being designated by agreement to conduct a degree-granting program in agriculture and the others to be affiliated with it.
2. That provincial land-use planning, supported by appropriate legislation and tax policies, favouring productive agricultural land, be a requirement for federal assistance for farm enlargement and soil improvement in the Region.
3. That people who have capital to invest in part-time farming and can employ farm labour be encouraged through available technical and financial assistance programs to contribute to the expansion of economic farm activity in the Region.
4. That a modified free market for primary agricultural production be created by removing the powers of marketing boards to set quotas and prices and by introducing a stabilization program to which farmers would contribute when returns are high, and from which they would receive proportionate benefits when returns are low, based on price trends and predetermined formulas for various farm products.
5. That the economics of expanding vegetable and fruit production in a controlled environment or by storage methods to prolong the market season to meet local and export markets be examined.

PART III - FISHING

The fishing industry and related activities have attractive economic potential for the Atlantic Provinces in short and long-term growth and ongoing diversification. The Council has been reliably informed that East Coast fish stocks could double in five years, and that exports could also double in value, making Canada the largest fish exporter in the world. Although most Canadian exports of fish now go to the United States, the greatest potential for exports exists in eastern and western Europe, Japan, Latin America and Africa. The probability is increased if the foreign fishing effort in Canadian waters is reduced and if Canadian industry can accommodate to species such as silver hake, argentine and roundnose grenadier, which it now catches in relatively small quantities or not at all.

Estimated catches in 1985 by species are given in Table 25, and quota allocations by country for 1975, 1976 and 1977 are given in Table 26 for the principal East Coast fishing areas in total. Preliminary figures for 1978 indicate Canada has a higher quota and a proportionately higher share of the total allowable catch than in previous years.

The 200-Mile Zone

Canada's declaration on January 1, 1977, of a 200-mile offshore economic zone opened a new era for the Atlantic Coast fishery. Fishing grounds which have attracted West European fishing fleets for centuries, and in recent years from further afield, are now under Canadian management and control. The action implies a new assertiveness in Canada's national life and responsibility. A troubled and, in many respects, highly subsidized regional fishing industry is now acquiring a place of respect in the national consciousness that people of the Atlantic Provinces have long been seeking for it. The zone represents a major national commitment toward restoring the Region to economic health.

TABLE 25

Projections of Total Atlantic Coast Catches
(all countries) in 1985 by species

(excluding small tonnages of high value
species such as salmon, lobster and scallops)

(metric tons)

Cod	688,000
Haddock	25,000
Redfish	167,000
American plaice	74,000
Witch	30,000
Yellowtail	15,000
Greenland halibut	50,000
Roundnose grenadier	43,000
Flatfish (Mixed - Scotian Shelf and Gulf of St. Lawrence)	60,000
Pollock	25,000
Squid	25,000
Capelin	500,000
Silver hake	75,000
Herring	280,000
Mackerel	30,000-50,000
Total, say	2,100,000

Source: Fisheries and Marine Services,
Environment Canada.

TABLE 26

Total Quota Allocations by Nation
1975, 1976 and 1977
ICNAF Sub-Areas 2, 3, and 4^(a)
(metric tons)

COUNTRY	1975	1976	1977
Canada	635,810	550,150	572,925
Cuba	-	37,400	21,260
Denmark	19,450	12,040	5,740
France	67,740	36,250	20,140
Federal Republic of Germany	47,600	26,900	11,930
German Democratic Republic	40,400	27,000	14,420
Iceland	-	20,000	-
Japan	7,000	5,500	4,250
Norway	78,800	67,630	59,710
Poland	61,170	39,060	24,055
Portugal	129,250	72,325	33,920
Romania	400	400	400
Spain	171,550	84,165	29,430
U.S.S.R.	696,800	605,990	472,915
U.K.	18,300	6,190	3,280
U.S.A.	24,480	21,300	17,875
Others	72,550	27,400	16,875
Total Allowable Catch	2,189,300	1,741,700	1,413,000

Source: Minutes, Standing Committee on Fisheries and Forestry
November 30, 1976.

(a)

Approximates Canada's jurisdiction - part of Sub-area 3 extends outside and part of area 5, not included here, could be inside Canada's 200-mile offshore economic zone.

Intensified international fishing in distant waters in recent years has impelled a number of other countries, some earlier, some later, to protect the interests of their people in adjacent fishing waters by declarations similar to Canada's. In Canada's case a rising clamour of concern from the Region drew national attention to the injurious effects of stock depletion on the inshore and offshore fishing efforts of coastal communities, and eventually to the realization that attempts to manage the stocks under international auspices were ineffectual. Canada now has the authority to control all fishing in its zone to permit restoration of depleted stocks and to set and police catch quotas for all species to attain a maximum annual harvest consistent with ecological balance and potential.

It is not to be expected that fishermen of the Atlantic Region will have unrestricted access to fishing stocks in the 200-mile zone, or that other countries should be denied access to allowable quotas beyond the catching and marketing capability of Canada's fishing industry. Rebuilding of depleted stocks will take time to achieve, and a regime of strict controls, based on thorough understanding of the Continental Shelf ecology, must be accepted indefinitely. The limits to growth in annual returns from the Atlantic Region's fishing industry, therefore, lie in the quality of resource management and in the ability of the industry and the nation to catch, process and market a more diversified line of fish products.

Zone Boundaries

Despite the international co-operation Canada is evidently receiving in its efforts to manage fairly the fish stocks in its 200-mile zone, there are zone boundary issues remaining in which the national interests at stake are largely those of the Atlantic Region.

Acceptance of French claims to a large fishing zone off the islands of St. Pierre and Miquelon would seriously complicate Canadian efforts at fishery resource conservation and management, as well as preclude Atlantic Region fishing

interests from access to the waters involved. If the equidistant concept is applied, a large portion of the cod, redfish, American plaice, witch, herring and salmon stocks which Canada seeks to manage would either fall within or migrate through a French zone over which Canada would not have control. Under the European Economic Community's Fishing Commission regulations, moreover, all EEC members would have fishing rights in a large portion of the zone. It is the Council's view that the fact of Canadian nationhood over the northern half of the continent entirely overshadows the few acres of French territory remaining in North America, and that French claims to a substantial portion of the 200-mile fishing zone off Newfoundland and Nova Scotia should not be acknowledged. Use of the islands should be respected, however, for their historic purpose as a shelter for French fishing vessels (subject to Canadian licensing to fish the Canadian zone), and maintenance of an inshore fishing zone would not be unreasonable for inhabitants of the islands up to three miles offshore, or at most twelve, except where it would encroach on Newfoundland inshore fishing.

A favourable decision on the boundary between United States and Canadian fishing zones of the Gulf of Maine, Georges Bank, and surrounding waters, is crucial to Nova Scotia and New Brunswick. The major part of Georges Bank lies on the American side of the equidistant line between the two countries. These waters have long been a rich fishing ground for Canadian fishermen, and account for a substantial portion of the catch of high-value species, particularly scallops. The Council considers it vital to the interests of the Region that settlement be reached on the equidistant principle and that close co-operation in fisheries management and in reciprocal arrangements for fishing in one another's zones in this area be maintained during negotiations and after a satisfactory settlement is reached.

In the waters between Greenland and Canada the equidistant principle would also be appropriate, with sufficient elasticity to the 200-mile zone to ensure means of adequate joint protection for the migratory range of Atlantic salmon. A fish adequately describable only in lyric terms, *Salmo Salar* is dependent on Atlantic rivers for reproduction and instinct and on the northern ocean for growth, flavour and consummate form. Tightened Canadian restrictions of recent years have preserved a degree of commercial viability for this species, whose increasingly high value adds to its vulnerability. Since Danish and Canadian fishermen exploit the stock at different periods of the life cycle, the most careful joint management is in the interests of both.

Since the 200-mile zone in places does not extend to the limits of the Continental Shelf, it is the Council's view that Canada's objective, in the interests of the Region, should be to extend sovereignty fully to these limits, not only to provide effective management of fish stocks over the whole Shelf, but to ensure ownership of potential oil, gas and mineral resources.

Federal-Provincial Relations

While agreements with foreign powers are important, domestic accord on fishery issues is also vital for systematic development. Strong initiatives are needed to effect co-operation and maintain harmony of views between Canada and the provinces and between business and labour. There is now an apparent lack of co-ordination between Ottawa and the provinces, with the former controlling the catching and the latter the shore facilities. The resultant uncertainty makes planning in the private sector difficult. Despite the bright picture that the 200-mile fishing zone presents, the Council has been disturbed to hear from representatives of the private sector that the industry is apparently approaching its expected importance somewhat aimlessly. It is not that investors are uninterested now, but rather that the rule book is still in preparation for the future. Reconciliation of conflicting federal and provincial views might be accomplished by a joint management commission with representatives of each eastern province and chaired by Canada. Agreement on complementary policy objectives by Canada and the five eastern provinces would facilitate effective decision-making at the primary, processing and marketing levels, and stimulate constructive investment.

At present the Fisheries Service of Environment Canada is responsible for fisheries management and regulations. Administration is regionally oriented, primarily to the east and west coasts, but also to fresh water commercial fishing areas including the Western Northlands. There are two Fisheries Service Regions in the Atlantic Provinces, the Maritime Region with headquarters in Halifax and the Newfoundland Region with

headquarters in St. John's. Policy direction and planning are centralized in Ottawa. As noted earlier, the Council recommends that all directorates concerned with the East Coast fishery be transferred to the Region. Joint management arrangements with the provinces will likely be required indefinitely, particularly in directing a common pool of scientific effort.

If the fishery resource is to be developed to its full potential, it requires a substantial scientific base and research effort. Research and development, planned and implemented in the Region, is considered more likely to be relevant to the needs of the industry and supportive of changes in technology than if directed from the inland national capital. Expansion of the professional base of the Region for all aspects of marine and fisheries research and development would have a stimulating effect not only on the fishery sector but on the regional economy in general, particularly as local industry adapts to the purchase of research and development services. Expansion of the university program as recommended for agriculture is recommended also for the fishery and oceanography, with comparable affiliation arrangements between provincial institutions. Aquaculture research and technology may offer a new dimension to the fishery effort of the Region and a significant basis for expanding the economy of rural areas. Fisheries schools and technical colleges, such as are already located in Caraquet, New Brunswick, and St. John's, Newfoundland, will in time be required in other areas to provide appropriate training for fishermen and plant workers, oriented to problems and opportunities characteristic of the areas concerned.

Quota Allocation

Because of its role in the political economy of the Region, the decisions reached on fisheries will affect the pattern of socio-economic development in many parts of the Atlantic Provinces. Large sections of the Region are economically dependent on the inshore fishery and quota allocation and fishery policies can provide for their survival and prosperity.

In addition to their economic potential, rural fishing communities also serve as a source of manpower for the offshore fleet. Deepsea fishing is a respected occupation in these communities, which also provide home security to the fisherman's family while he is at sea. If the Council's recommendations were to be accepted, quota allocation would not be the sole responsibility of the federal authorities but subject to joint management consideration, so that each province would make its case in the best interests of its own communities.

It would be contrary to the long-term interests of the Region if total quantities taken yearly from any stock were to be destructive of its biological potential to reproduce at a healthy continuing level, and it is important that such limits not be exceeded in setting total allowable catches (TAC). When, where and how a catch is taken, however, is usually decided on the basis of economic returns. Since size of the yearly TAC affects costs and returns, it is important that some stocks be allowed to grow to an optimum economic level beyond conservation requirements, though in other cases the Canadian catching effort may not rise to the optimum economic level and the stocks could permit continuing latitude for sharing of TAC's with foreign countries. Stocks to be managed, however, occur both within and outside the 200-mile zone at the eastern and southern corners of the Grand Banks and all of the Flemish Cap, and cannot be left to the uncontrolled pillage of competing countries. While data integration with foreign countries is possible, the experience with the International Commission for the Northwest Atlantic Fisheries (ICNAF) offers little comfort for the Region that similar arrangements would be effective for the Continental Shelf waters outside the 200-mile zone. The Council feels that both problems can be resolved by extension of Canada's jurisdiction to the entire Continental Shelf, provided the scientific and custodial efforts, including the national defence component, were geared up accordingly, and reasonable assurances given to foreign nations seeking licences.

Catching Capacity

The current debate between Canada and the provinces concerning boat construction is an obvious one for resolution by a joint fisheries commission. Policies in support of smaller vessels, which can economically exploit a large variety of stocks near shore, need to be continued, with care to avoid having more vessels than the stocks available to them can support. Co-operative ventures with foreign countries can be used to help determine appropriate catching technology and improve utilization of unused plant capacity, but not to inhibit long-term employment or investment opportunities for Canada. Emphasis is needed on development of catching and processing technology to meet the specific circumstances of Atlantic Canada, particularly its tardiness in exploiting species with commercial potential now largely left to others.

Income Stabilization

The limits of seasonal fishing have been enlarged considerably by the use of boats which can fish a wide range of species for most of the year and provide reasonable annual incomes and occasionally a bumper year. Poor years and failures of fishing enterprises, however, are by no means uncommon, and there is no insurance against failure of the enterprise. Most inshore fishermen, moreover, are heavily dependent on income supplements, particularly unemployment insurance, which is provided fishermen who have the required number of weeks of insurable income. Some fishermen draw unemployment insurance benefits annually as a matter of course, while earning seasonal incomes higher than those of many Canadians who work and contribute to the unemployment insurance fund year round.

A fisherman is entitled to receive unemployment insurance benefits if he has at least ten weeks of insurable earnings ranging from a minimum of \$48 to a maximum of \$240.

Net earnings in excess of \$240 in one week cannot be applied to raise the level of another week. The weekly unemployment insurance benefit is two-thirds of average weekly insurable earnings for the last 20 weeks fished, or, if it is to the fisherman's advantage, the average will be computed of all the weeks of insurable earnings after April 1 of each year. The maximum weekly benefit is \$160. The period during which benefits may be received is from the week of November 1 to the week of the following May 15. Within that period a fisherman normally receives five weeks' benefits for every six weeks of insurable earnings. The period of his entitlement, however, is extended by two weeks for every half percentage point by which the unemployment rate in his province exceeds 4%.

In the Atlantic Region, where the average unemployment rate for 1977 was 12.7%, any fisherman with ten weeks or more of insurable earnings is virtually guaranteed unemployment insurance benefits for the full November 1-May 15 period. In these circumstances unemployment insurance is not a provision against the possibility of unemployment, but rather a source of regular income of up to \$160 per week for approximately half of each year.

Obviously the average weekly insurable earnings is a crucial figure for the fisherman in seeking to maximize his yearly income. If he is fortunate in selecting his weeks to fish when landings are good, he then incurs the considerable risk of lowering his average weekly insurable earnings by continuing. If he misjudges or incurs a stretch of poor fishing, he may be wise to stay ashore until the prospects of good landings improve. To the extent that he limits his fishing effort in consideration of the unemployment insurance package, the program tends to act as a disincentive to work. Not only does it tend to hold down the total catch of which a fisherman may be capable in a fishing season, but it limits diversification into fish species which might otherwise profitably be harvested and also reduces the supply and viability of the many fish plants that are not supported by deepsea trawler fleets. As plants close for lack of supply, plant workers are laid off, adding to demands for unemployment insurance and reinforcing the unemployment rate.

The Council has no quarrel with individuals who make the best decisions open to them in their own economic interest. There are many cases of fishermen who find returns from longer fishing sufficiently attractive to fish as long as possible, although their ability to sell depends in large degree on decisions to keep plants open on reduced output. It is doubtful, however, whether the growth of a healthy fishing industry is aided by a system of income supplement in the guise of unemployment insurance which proffers an attractive disincentive to work. In the Council's view, it is urgent that saner measures be explored to share the risks of poor years, catastrophic losses (e.g., loss of equipment through storms) and severe price fluctuations, and in cases of genuine hardship to provide social assistance in accordance with criteria applied to other citizens. This is not to suggest that unemployment insurance can be withdrawn abruptly, but rather that it might be phased out over a period of years as fish stocks are restored and as a contributory catch insurance and price support system can be phased in. The Council suggests that this important question be studied anew (possibly leaving catastrophic losses aside for separate consideration), and combined with other measures to secure for the fisherman's best efforts an economic return consistent with normal risk in an industry which has changed greatly for the better since unemployment insurance was first applied to it.

Marketing

It appears that the proportion of Canadian effort and spending in the fishing industry that is applied to marketing and promotion is disproportionately low in comparison, say, with the comparable Canadian food industry based on agriculture, not to mention toiletries and alcoholic beverages. While this aspect will be further discussed in Chapter 7 (Business), it is noted here because of the potential value to the fisherman in planning his year's operations and in the care and handling of his catch. In the Council's view, it is quite insufficient to be relying heavily on a single market,

which could impose tariffs or quotas, and to be remaining subject to the manipulations of foreign brokers and the visitations of foreign buyers. Not only are vigorous sales efforts needed abroad, in conjunction with tariff negotiations, but also in Canada, where fish consumption per capita is notably low and awareness of the fishery is now being aroused. In respect to foreign nations seeking licences or joint ventures to fish in Canadian waters, better access to their markets for Canadian fish is an obvious bargaining point for the national government. What may be less obvious is the need for regional fish exporters to press closely upon Canada's trade commissioners abroad, and in the languages of fish-consuming nations. In the Council's view, feedback from such sales effort is a most reliable guide for the technology required in the fishery and for multi-year planning of fishery operations.

Fisheries Technology

From the Council's observation, most of the technology in use in the Atlantic Region's fishery is either imported or traditional. While both have served useful purposes, the Region is lacking in the technological capability to solve many of the new problems which will arise in a much expanded fishing industry. Systematic identification of these problems, related to the realities of available markets, would appear to be an early priority, and their solutions on a multi-disciplinary scale would not only advance the competitiveness of regional fish products but generate a technological capability in the Region that in itself would have export potential.

It is not unreasonable for the Atlantic Region to aspire in time to having its own residents capably managing the fishery resource and capturing all of the annually harvestable stocks of marketable fish in their offshore waters. The technological challenges of a rational management system for the fishery are to understand the ecology of the ocean and to master economical techniques of matching people and equipment with the operating environments. Of equal importance are onshore handling and processing facilities and management methods scaled up to a keen sensitivity to world demand and capable of operation in multinational corporate competition.

Recommendations

1. That all catch quotas for the East Coast fishery be determined by a joint commission of the five eastern provinces and Canada, with a Chairman appointed by Canada, and that complementary federal and provincial policy objectives be established which would enable effective decision-making to be made at the primary, processing and marketing levels of the private sector.
2. That management of East Coast fish resources be strengthened by increased research to determine maximum sustainable yields and by bringing all the Continental Shelf within Canadian control, except for an inshore fishing zone around the French islands of St. Pierre and Miquelon and subject to equidistant settlements with the United States and Denmark.
3. That, as an important resource sector of each of the Atlantic Provinces, the fishery merits a degree of attention to improving harvesting techniques, diversification of production, quality control, marketing, modernization of handling methods, professional training and aquaculture, that warrants a major national effort to assist the Atlantic Region on regional development grounds.
4. That Canada relocate to the Atlantic Region the directorates of the Fisheries Service concerned with policy, planning and research functions, insofar as fishery development in the Eastern Provinces is concerned.
5. That fisheries training in the Atlantic Region be expanded to university degree status in one university, with the fishery programs of other universities affiliated with it on equitable arrangements between the provinces, and that technical training facilities be expanded in areas of heavy dependence on the industry.

6. That fishing fleet development be correlated with availability of stocks, replacement of obsolete vessels, and for catching species and stocks not now caught by Canada, and be organized to employ local technology and facilities for optimum social and economic benefit to the Region.
7. That Canada negotiate favourable tariffs and access to markets for Canadian fish products with countries seeking Canadian co-operation in joint ventures, and in the granting of licences for fishing within the Canadian economic zone, and with other countries and trading blocs.
8. That measures be developed to replace unemployment insurance for self-employed and co-adventurer fishermen by organizing insurance protection on a contributory basis against catch failures, disasters and short-term price drops, and restoring incentives to work as long as good fishing for all accessible species and weather conditions will allow.

PART IV - FORESTRY

The market for forest products is generally good with world demand growing at an annual rate of 2%. Production of timber is increasing in the Southern United States, the southern temperate zone and the tropics, but there are problems with soil erosion, logging and depletion of nutrients in the latter case that will not be resolved easily. Scotland is the only Western European country expanding primary production, while many other countries are losing land to alternate uses. It appears that the long-term demand will be strong and that the Atlantic Provinces can be competitive because of relatively easy access to the resource and to transport by sea to the United States and offshore markets, and fair conditions for forest growth.

The forest-based industries of the Atlantic Provinces are a major source of economic activity and are generally competitive with the rest of Canada. The Region, excluding Labrador, contains about 5.7% of the standing merchantable timber in Canada but harvested 11.3% of the national total in 1975. Labrador has 13.5 million acres of productive forest land south of Makkovik, and although the annual allowable cut has not been determined, it was estimated in 1968 to be more than sufficient to sustain the raw material requirements of two major mills¹. Over 900 businesses were engaged in logging and the manufacture of wood products in the Atlantic Region in 1975, with a total direct employment of some 27,000 people.

Table 27 summarizes the value of wood-using industries in relation to other manufacturing both in the Region and in the rest of Canada. The percentage for wages and salaries is higher than for employment, indicating higher average incomes in wood-based industries than in other manufacturing. The relative efficiency of the industry is indicated also by the high percentage of value added in relation to the figure for value of shipments.

¹ Background Study No. 1, Forestry in the Atlantic Provinces, Atlantic Development Board, 1968.

TABLE 27

Wood Using Industries as a Percent of
All Manufacturing - 1975 (a)

	Nfld. %	P.E.I. %	N.S. %	N.B. %	All Atlantic Provinces %	Rest of Canada %
Employment	26.0	4.1	12.4	32.0	21.2	9.9
Salaries & Wages	34.1	3.3	13.1	35.7	24.5	10.7
Cost of Materials & Supplies	14.2	1.3	7.4	24.0	14.7	7.2
Value Added	35.4	2.1	20.5	41.8	30.4	10.3
Value of Ship- ments	22.2	1.6	12.5	32.1	21.3	8.6

Source: Derived from Statistics Canada.

(a)

Figures were available only to 1975 and for P.E.I. only to 1974.

A decrease (8.8%) in the number of wood-industry establishments between 1971 and 1975 was offset by a large (24.9%) increase in logging businesses. Nova Scotia and Prince Edward Island accounted for the decline in wood industries, while Newfoundland and New Brunswick had small increases. All four provinces showed an increase in employment in all forest industries combined. Indices of employment are shown in Table 28.

Modest growth has occurred in employment in all wood industry groups in each province and the Region did slightly better than the rest of the country in this respect. Thirteen hundred new jobs were created at the primary level from 1971 to 1975 and 1,200 new manufacturing jobs in forest-based industries. The Region increased wood consumption at a higher rate than the rest of the country from 1971 to 1975.

Lumber production fluctuates considerably in Prince Edward Island and Newfoundland but data to 1975 suggests an upward trend. New Brunswick has had relatively steady growth, while Nova Scotia is declining. The average output per sawmill in the Region is considerably less than for the rest of the country, with the average New Brunswick sawmill turning out twice as much lumber as the average Nova Scotia sawmill, which in turn produces three times as much lumber as the average mill in Newfoundland and Prince Edward Island. The average production per mill in the rest of Canada, heavily weighted by scale of operations in British Columbia, is three times that of New Brunswick. The sawmill and planing mill industry employs more people per unit of wood used than do pulp and paper mills.

The manufacture of chips from sawmill residues and their sale to the pulp industry is an increasingly important factor in the economics of lumber production. Small sawmills cannot afford the debarking and chipping equipment needed for this process and perhaps this is a major factor in reducing the number of mills. They survive where there is a local market but residues are often wasted.

TABLE 28

Indices of Employment in Logging and
Wood-Using Industries of the
Atlantic Provinces, 1969 to 1975
 (1971 as Base Year)

Year	Nfld.	P.E.I.	N.S.	N.B.	All Atlantic Provinces	Rest of Canada
1969	104.2	77.5	104.5	96.4	100.0	102.0
1970	118.6	84.3	102.4	102.1	105.5	100.0
1971	100.0	100.0	100.0	100.0	100.0	100.0
1972	95.9	93.1	100.9	100.9	99.8	105.6
1973	126.3	93.1	104.1	111.7	112.7	114.2
1974	132.9	93.2	107.6	117.9	118.2	114.6
1975	118.0	- (a)	108.0	111.0	111.0	107.0

Source: Derived from Statistics Canada.

(a)

P.E.I. figures not available for 1975.

The pulp and paper industry of the Atlantic Region improved its position in costs of both labour and materials in relation to the rest of Canada during 1971-75. Gains in value added were slightly higher but value of shipments increased at a slightly lower rate than the Canadian average. Table 29 shows economic indicators for the pulp and paper industry for the years 1971 and 1975. There are no pulp and paper mills in Prince Edward Island, and Newfoundland figures include the Labrador Linerboard Mill at Stephenville which is no longer in operation.

It would be wrong to leave the impression that pulp and paper mills and the sawmills and planing mills are the only wood-based industries in the Region. In 1975, there were about 45 firms making doors and other millwork, four plants making wood particle-board (including the largest such plant in the British Commonwealth), three plywood and veneer plants, a wood-fibreboard plant, a dozen or more box factories, three wood-turning establishments, and a number of firms using wood in considerable quantities in the manufacture of furniture and fixtures, coffins, fish barrels, prefabricated buildings and mobile homes, and other articles. While statistics are not available separately for these industries, their contribution to the economy of the Region is very substantial.

The statistics for the forestry sector tend to mask a poor performance in resource management that has resulted in a forest stand that is extended to its biological limits in most producing areas of the Region.

The Region faces a potentially serious wood supply problem resulting from high-grading cutting practices, spruce budworm and other biological attacks, an imbalance of age classes, loss of forest land to competing activities and poor recovery from forest fires. The problems are generally recognized and provincial governments are now taking measures to improve management practices. Action has been late in defending some forests from the devastating attack of the spruce budworm, and its impact will be felt some years ahead. Although corrective management practices are expensive, long-run economy requires placing many forest lands of the Region on the basis of a major farm operation, including planting, harvesting, and

TABLE 29

Economic Indicators of Pulp and Paper
Industries (Averages of "Adjusted" Values

1971 and 1975

	Newfoundland		N.S.		N.B.		Average Atlantic Provinces		Rest of Canada	
	1971	1975	1971	1975	1971	1975	1971	1975	1971	1975
Value of Shipments per 100 cu.ft. of wood used	\$116.00	\$211.67	\$115.00	\$241.29	\$100.27	\$202.34	\$106.30	\$212.11	\$128.00	\$246.41
Value added per 100 cu.ft. of wood used	\$ 56.00	\$104.00	\$ 48.00	\$143.86	\$ 28.50	\$ 90.72	\$ 37.50	\$104.15	\$ 57.00	\$117.51
Persons employed per thousand cunits of wood used	4.5	4.1	3.3	3.1	2.9	2.4	3.1	2.9	3.4	3.9
Salaries & wages per dollar of value added	\$ 0.78	\$ 0.56	\$ 0.61	\$ 0.28	\$ 0.76	\$ 0.36	\$ 0.76	\$ 0.37	\$ 0.57	\$ 0.43
Salaries & wages per dollar of value of shipments	\$ 0.37	\$ 0.27	\$ 0.25	\$ 0.17	\$ 0.24	\$ 0.16	\$ 0.27	\$ 0.18	\$ 0.25	\$ 0.20
Cost of Materials & supplies per dollar value of shipments	\$ 0.46	\$ 0.42	\$ 0.51	\$ 0.34	\$ 0.63	\$ 0.45	\$ 0.57	\$ 0.42	\$ 0.49	\$ 0.46

Source: Calculated from Statistics Canada 25-202
"Canadian Forestry Statistics".

control of weed species, insects, diseases and fires. Encouraging signs of good forest management practice are evident on certain private lands and the federal government is providing financial assistance to provinces for forest management on Crown lands through DREE sub-agreements. Long-term commitments are needed, however, to ensure a continuing wood supply as the basis of existing industry and further investment.

Long-term agreements with each province are recommended to cost-share Crown corporations which would be given responsibility and authority for management of Crown lands with the ultimate prospect of substantial cost recovery through stumpage or leasing arrangements with industry. Such corporations could also contract with individuals and corporations for specific activities, including sale of nursery stock, and undertake complete management service for private woodlot owners on a fee basis. Experimentation is needed in alternative management practices under varying conditions, and records of costs and returns should be made available to private woodlot owners. In view of the scale and low early returns of such an undertaking, it is considered a necessary task for public initiative, particularly in setting a good example with Crown lands within demonstrable bounds of good economy. Private land owners would be encouraged to follow suit by means of a tax policy graduated to favour good forest management practice.

Unless the economic benefits from other uses are sufficient to compensate, the progressive loss of forest lands in small and large parcels year by year constitutes a continuing and substantial reduction in the productive capacity of the Region. The Council considers it in the public interest to control alienation of forest lands based on a land-use plan for the area concerned and analysis of the long-term implications of alternative uses. Multiple uses need not be discouraged so long as they do not reduce wood supplies, and are consistent with maintenance of good forest growth and respect for the forests, which have served the Region well for many years.

A broad base of detailed information is necessary for effective resource management and identification of the best mix of economical uses that can be sustained on a given land area. Maximum investment in forest resources requires ready access to information about the quality and age of timber stocks, the wildlife habitat, recreational potential, and the total biomass available for harvesting. Such information is expected to be of increasing importance in future, as the high cost of energy is making wood more attractive as a substitute for metals, which require much energy to produce, and as a fuel to be consumed directly or converted to methanol. Conventional uses will continue to dominate the sector, particularly if favourable tariffs can be negotiated for the export of fine papers.

The Council is encouraged by the improvements that have been made in management of the forest resource by government and industry and by investment in improved technology. The investments should be supported and encouraged by favourable government policy. Production of fine papers would increase the profitability of some operations that are now marginal if tariffs did not inhibit export and in this regard Council advocates that this item be included in the current GATT negotiations. Transportation costs of raw material is another area of concern to the industry and government should investigate the least-cost and most-energy-efficient system of moving raw material to mills.

Recommendations

1. That Canada enter into a long-term agreement with each province to cost-share an agency such as a Crown corporation which would be given full authority and responsibility for all aspects of management of forests on Crown lands and could enter into agreements with individuals and/or corporations to implement any or all aspects of forest management.

2. That productive forest land not be alienated without long-term cost-benefit analysis of alternative uses and that multiple use be made where the potential exists but not to reduce the productive capacity of the forest.
3. That taxation policies for forest land favour owners who have initiated and pursued productive management practices.
4. That surveys of forest resources be broadened to identify alternate development opportunities and to include assessments of wildlife habitat, recreational potentials, the quality and age of timber stocks and the total biomass available for harvesting.
5. That integration of lumber production and pulp and paper industries be encouraged to increase diversification of end products, value added, and employment, and that tariff negotiations be directed accordingly.

PART V - MINERALS

The value of mineral production in the Atlantic Provinces showed a steady increase in the 1970's, rising from \$512 million in 1971 to \$1,188 million in 1977 and production is expected to continue to increase to 1986. Each of the provinces will likely show real growth to 1986, with New Brunswick capturing a larger share of the Region's output and Newfoundland declining proportionally. The gross value of the Region's mineral production as a percent of Canada's total has decreased from about 8.5% to about 7.3% in 1976. If fuels are excluded from Canada's total, however, the contribution by the Atlantic Provinces grew from 12.5% in 1971 to 15% in 1976. The following survey is included to indicate the scale and importance of the mining industry and the value of continued attention to policies favouring further exploration and processing in the Region.

The volume and value of production by commodities for each Atlantic Province except Prince Edward Island is given in Table 30 for 1977 and direct employment by year from 1971 to 1977 is shown in Table 31.

Newfoundland, whose large reserves of iron ore in Western Labrador have become the mainstay of much of the North American steel industry, continues to be the major mineral producer of the Atlantic Provinces. The closing of the Gull Bridge Mine in 1971 and the Whalesback Mine in 1972 contributed to a decline in copper production which was not greatly offset by the opening of Consolidated Rambler's Ming Mine in 1971. Depletion of high-grade ore and industrial relations problems at the Buchans Mine contributed to the declining copper output and was largely responsible for a declining output of lead, zinc (to 1974) and silver. The mine is expected to close in early 1979. The start of Tech Corporation's zinc mine at Daniel's Harbour in 1975 contributed to a rise in the value of zinc production from a low of \$4.2 million in 1973 to a high of \$37.8 million in 1976.

TABLE 30

Estimates of Mineral Production ^(a)
Three Atlantic Provinces and Canada - 1977
('000)

	NEWFOUNDLAND		NOVA SCOTIA		NEW BRUNSWICK		CANADA	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
<u>METALS</u>		\$		\$		\$		\$
Antimony	-	-	-	-	-	6,463	-	8,954
Bismuth	-	-	-	-	298	1,895	310	1,971
Cadmium	10	32	-	-	40	127	2,642	8,421
Copper	18,393	12,778	-	-	29,160	20,257	1,721,003	1,195,579
Gold (ounces)	14	2,124	-	-	7	1,157	1,717	268,377
Iron Ore								
(short tons)	27,068	722,184	-	-	-	-	57,048	1,360,163
Lead	18,078	5,632	-	-	134,794	41,991	626,375	195,128
Silver (ounces)	471	2,316	-	-	5,568	27,370	42,758	210,189
Zinc	103,979	36,425	-	-	356,728	124,965	2,324,836	814,413
Total Value		781,491				224,225	(b)	5,600,536
<u>NON-METALS</u>								
Asbestos								
(short tons)	78	35,000	-	-	-	-	1,700	564,130
Barite (sh.tons)	-	-	-	1,550	-	-	-	2,325
Fluorspar " "	-	10,180	-	-	-	-	-	10,180
Gypsum " "	729	2,880	5,358	18,678	47	204	7,759	28,530
Lead " "	-	-	11	737	106	6,784	433	26,725
Quartz " "	-	-	-	386	-	-	2,604	18,444
Salt " "	-	-	898	17,540	-	-	6,540	88,428
Soapstone								
Talc Pyro-								
phyllite " "	-	624	-	-	-	-	81	1,980
Sulphur in								
Smelter Gas "	-	-	-	-	51	1,211	845	20,185
Total Value		48,684		38,891		8,199	(b)	1,367,212
<u>FUELS</u>								
Coal	-	-	2,350	80,500	320	6,450	31,300	670,500
Petroleum	-	-	-	-	-	60	-	9,341,976
Total Value		-		80,500		6,510		10,012,476
<u>TOTAL VALUE</u> ^(c)								
<u>MINERALS</u>		830,175		119,391		238,934	(b)	16,980,224

-) Pounds are the standard weight unless otherwise noted.
) Including minerals not produced in the Atlantic Region
) Structural materials excluded

Source: Statistics Canada Catalogue 26-202, "Canada's Mineral Production, Preliminary Estimates".

TABLE 31

Employment in Mining
Atlantic Provinces
1971-1977

	1971	1972	1973	1974	1975	1976	1977
Newfoundland	5400	5100	5300	6000	5900	6200	6100
Prince Edward Island	-	-	-	-	10	30	40
Nova Scotia	5400	5100	4800	4500	4700	4500	4700
New Brunswick	2400	2400	2500	2400	3000	2700	3100

Source: Statistics Canada 26-204 "Mineral Industries:
Principal Statistics".

*

The Aluminum Company of Canada supplied fluorspar to its Quebec smelter from a mine at St. Lawrence, Newfoundland, which was closed in February, 1978, in favour of purchasing tariff-free lower-cost ore from the world market. St. Lawrence was the only producer of fluorspar in Canada and produced for Canadian and world markets since 1933. An estimated eight million short tons remain in the mines, sufficient to serve Alcan for many years.

Asbestos production in the 1970's has been erratic but is expected to show an increase from 69,000 tons in 1971 to around 90,000 by 1986. Gypsum production will respond to the general level of activity in the construction industry. Cement production capacity, geared to local usage, will probably remain stable. Thirty to forty thousand tons of pyrophyllite are mined annually at Manuels, near St. John's, for export to the United States for use in the manufacture of ceramics.

Uranium deposits near Makkovik in Labrador may be brought into production in the early 1980's. Extensive limestone deposits of good quality in the Port au Port Peninsula area have been surveyed and could form the basis of a new cement plant.

The total value of mineral production in Newfoundland increased in the 1970's from \$343 million in 1971 to \$830 million in 1977. Most of this increase has been in iron ore production, which also accounts for most of the Province's forecast growth. A general increase in direct employment in Newfoundland's mineral industry is expected to continue, despite anticipated closures of the Buchans and Rambler Mines in 1979.

"An Act Respecting the Acquisition of Rights to Minerals in the Province" was passed by the Newfoundland House of Assembly in 1976 and proclaimed on July 1, 1977. It provides for simplified procedures for acquiring mineral lands and large areas of the Province are being made available for map-staking. Regulations under the Act provide for work requirements on mineral lands which conform closely to modern exploration practice elsewhere in Canada, and an increase in the level of exploration activity in the Province is expected as a result. Further stimulus has been applied in a companion "Act to Authorize an Impost upon Certain Mineral Holdings in the Province",

made effective on January 1, 1978, with the intent of increasing the level of exploration on mineral concession lands, fee simple mining grants and Reid Lots, by allowing the companies concerned three options: to pay an annual tax on their mineral lands, to expend an equivalent amount on mineral exploration on their lands, or to forfeit the lands to the Crown. The short-term effect may be the surrender to the Crown of large areas of mineral lands which are of little exploratory interest, but the long-term benefit is expected to be an increase in exploration activity in lands of higher mineral potential.

Nova Scotia has had negligible metal production in the 1970's, but development of a zinc and lead deposit at Gays River has been announced.

Coal production declined until 1973, after the closings of the Four Star Mine in 1969, the Dominion No. 20 and Springhill Mines in 1971 and the McBean Colliery in 1972. DEVCO's Lingan Mine opened in 1972 and contributed to an increase in production reaching a value of \$80.5 million in 1977. In 1976 DEVCO's Prince Mine was opened and a steady increase in total coal production is forecast to the mid 1980's, as the local market (which consumes almost all Nova Scotia's coal) expands. There are considerable offshore reserves of coal that present long-term potential and promising research is being undertaken to reduce sulphur and ash in the coal of Pictou County. A coal-fired electric power generator is under construction in Cape Breton Island, and consideration is being given to converting the generator at Halifax to utilize coal as fuel.

Barite production has been steadily declining and will end when the Walton Mine closes in the late 1970's. Celestite production began in 1971 with the opening of Kaiser Celestite's Lake Enon Mine but ended in 1976. Gypsum production in Nova Scotia is expected to remain unstable and no major changes are forecast in production of cement, clay, sand and gravel, and stone. The gradual increase in salt production during the 1970's is expected to continue, from 889,000 in 1971 to about 1,500,000 tons in 1986.

The annual total value of mineral production in Nova Scotia is expected to increase substantially, reversing a decline which continued until 1974. Non-metals and coal will account for most of the increase in total value and production. High values added reflect the fact that most of Nova Scotia's minerals are processed and consumed locally.

In Nova Scotia, the "Act Respecting Mineral Resources" of 1975 allows a uniform approach to prospecting throughout the Province. Map-staking is the sole method of acquiring mineral lands for exploration, which is illegal on ground for which no exploration licence has been obtained. This approach has led to much staking activity in the Province and a heightened degree of interest in its economic possibilities as a producer of metals.

New Brunswick has had a steady increase in production of base and precious metals for the past decade and the trend is expected to continue, although zinc markets are presently weak. In the 1980's deposits at Key Anacon, Half Mile Lake and Murray Brook may be brought into production. A new potash mine already in the process of development at Sussex will contribute to an increase in jobs and income in the Province and the outlook is good for a second mine in the same area. There are also prospects for a tungsten mine near St. Stephen.

Antimony production began in 1972 but will probably cease in the late 1970's with the closing of the Consolidated Durham Mine. Bismuth production rose from \$0.2 million to \$1.9 million in 1977 and is expected to maintain its level of production in the forecast period.

Coal production has fluctuated in the 1970's but a 25% increase is forecast by 1980.

Non-metallic minerals and structural materials have shown no major changes in trends during the 1970's and future patterns are expected to follow trends in the construction industry.

The steady increase in the annual total value of mineral production in New Brunswick during the 1970's is expected to continue until 1980, when a sharp increase is expected with the opening of new base metals mines in the Bathurst Camp, potash mines near Sussex and possibly tungsten-molybdenum in the Southwest. In 1971, the total value of production was \$107 million and in 1977 was \$239 million. The total value is expected to double in real terms to 1986 and value added to treble in the same period.

New Brunswick's "Mining Act" provides for ground staking along traditional lines and for escalating work requirements on claims if they are to be retained. The act is evidently one that mineral exploration companies can live with as indicated by the high degree of current interest in exploration in the Province.

Prince Edward Island has never had a significant mining industry, and none is anticipated, as the few exploration attempts made to date have had negative results. Production of sand and gravel is expected to continue a slow increase following trends in the construction industry in that Province. In recent years, employment has never amounted to more than a few dozen workers.

Social Implications of Mining

Development of mines can be costly to governments in providing social and industrial infrastructure and incurring the capital loss of depleting a non-renewable resource. The returns from mining vary according to market conditions, location and type of mineral produced. Nova Scotia has a fairly high "value added", as most of the minerals are consumed locally. Most mineral output of the rest of the Region is exported with minimal or no processing. Where mining enterprises are owned outside, direct profits, processing and related manufacturing, and head office corporate taxes usually accrue elsewhere also, with little likelihood of reinvestment in the Region. When a mine closes, governments are often left to resolve the serious social and economic problems of the communities involved.

Since the economic benefits of mining to a relatively poor province (or an under-developed country) are nevertheless substantial, in royalties, job creation and supply to the mining operation and its community, new mining operations are welcomed as a stimulus to economic growth but are often wanting as a means of generating economic development in the producing region.

In the Council's view it should be an object of public policy in the Region to place more of the onus for social costs and capital losses related to mining on the mining operations themselves. To the extent that a province may succeed in cultivating mine ownership and processing and related manufacturing within its borders, the loss in economic value is reduced and the social costs more widely shared. Since mining operations are characteristically tied to international trading, however, the Atlantic Region may have to continue to sacrifice long-term economic benefits from mining for the sake of immediate jobs. While each case must be judged on its merits, the experience with the mining industry suggests that it would be prudent public policy to require a mining operation to contribute a portion of its profits, with a proportionate contribution from the province's profits from royalties, to a sinking fund against depletion of the asset to be used by the province to help establish alternate industry and offset social costs of community dislocation when the mine closes.

Large scale mining operations with long life expectancy and minimal environmental impact, strategically located for development of other industries, may be expected to have lower social costs than mining towns that are abandoned in a few years when reserves can no longer be profitably extracted. Alternatives to the creation of one-industry mining towns include existing mining communities if the new mine site is isolated. Transportation of miners from St. Lawrence and/or Buchans to Makkovik and return, for example, for 2-4 week periods by air might not exceed the yearly costs of a new townsite and alleviate the problems of mine closures in the two Island communities. Daily commuting may be possible in more populated areas such as Sussex, New Brunswick, and Gays River, Nova Scotia. While social and economic costs to the community during the life of the mine and following closure should be recovered during the extraction period, they may now be reduced, with corresponding benefits to all concerned, by recourse to alternative means of manpower supply which in earlier days were impractical.

There is a high incidence of industry-related diseases in mining communities of the Atlantic Region which warrants, in the Council's view, more rigorous public action. Lack of adequate health and safety measures are presently an issue of union-management negotiations and labour strife and contribute to the poor image of industrial relations in the Region. The Council suggests that an agency be empowered in each of the three larger provinces of the Region to initiate research into methods of improving mine safety conditions at each mine site and that appropriate procedures be established to stop work if serious hazards are suspected or recommendations are not followed. Employees too would be obliged to follow health and safety regulations, which should be thoroughly explained at formal training sessions.

Further Processing of Mineral Products

Industrial minerals are mostly processed for sale locally and the predominance of non-metallic minerals and structural materials in its output accounts for Nova Scotia's better record in value added (approximately equal to the gross value of mineral production) than Newfoundland and New Brunswick, where it is much lower.

The Sydney Steel Corporation, lead smelting in New Brunswick and some on-site concentration account for the only processing of metallic minerals in the Atlantic Provinces. An electrolytic zinc plant is a potential metals industry strongly advocated by the Province of New Brunswick that would appear to warrant more sympathetic support from the federal government. In view of the Region's large output of zinc ore and high unemployment rate, it is difficult in a period of weak prices for zinc to reconcile federal assistance for a zinc smelter in Peru and a lead-zinc mine in Ireland, through Canada's Export Development Corporation, with an apparent lack of domestic co-ordination and programming which could inhibit development of a metal-processing industry in the Atlantic Region. In view of the extensive mineral deposits in the Atlantic Provinces the Council feels that Canada must make a strong effort to develop a metals industry in the Region as part of its commitment to regional development.

General Mining Strategy

Despite the conventional wisdom that expects primary industries to yield fewer and fewer jobs, mining in the Atlantic Region has undergone absolute growth in production and direct employment in the seventies and will likely continue to do so. As noted in Council's 1971 Strategy Report, future developments depend on new discoveries, the state of world demand, and continuing competitiveness, and government policy should continue to be directed to encouragement of geological and exploratory work and surveys and assurance of adequate scientific and laboratory services for the mining industry.

Support of geological surveys and exploration in the public sector is being achieved through joint federal and provincial programs for long-term geological mapping, commodity assessment surveys, and academic studies relating to economic geology. Geological mapping is required not only in Newfoundland, where 1:50,000 scale mapping has yet to be completed, but also in Nova Scotia and New Brunswick, where maps are already available. Experience elsewhere has shown that geological work of this kind needs to be updated every ten to fifteen years to be of continuing value to exploration interests.

Mineral exploration service industries based in the Region may need some government support if they are to thrive in competition with their counterparts from other provinces. Governments could encourage use of local consulting, analytical, claim staking, and supply services by attaching an amendment to their regulations entitling them to a somewhat reduced work requirement on their mineral lands in exchange for their more direct support of the local economy.

The future of the mining industry in the Region lies primarily in a steadily increasing rate of production, which will only follow increasingly aggressive mineral exploration. Government policies should be tailored to maximum exploration and development without unnecessarily compromising the environment.

Recommendations

1. That permits to open new mines be generally contingent on the ability of the operation to pay for social and infrastructural costs during the life of the mine and contribute to a sinking fund to offset the impact of mine closure;
2. That provincial governments determine the need for further health and safety regulations in mines and create agencies representative of labour, industry and government to develop appropriate standards and to draft and enforce regulations;
3. That federal policies on tariffs, regional development in Canada, export development, and assistance to Canadian-based companies involved in mining and mineral processing operations in other countries be reviewed to ensure that they do not inhibit further development of mining and mineral processing operations in the Atlantic Region;
4. That general mining strategy in the Region be tailored to increasingly aggressive exploration activity and cultivation of locally based service capability for mineral exploration and production.

CHAPTER 6

BUSINESS - THE CRITICAL NEED FOR ENTERPRISE

Business investment performance in the last few years in the Region can be described as only lacklustre.

Figures compiled by the Economic Council of Canada confirm that lack of capital from 1970-73 did hinder marginally the Region's economic performance. During 1973-76, a time of great caution for investors, the Region's investment increased at a rate substantially less than the national average, growing at less than 5.8% annually compared to the national rate of 8.0%¹.

As for new foreign investment interest in the Region, data from the Foreign Investment Review Agency (FIRA) show that from its inception on April 4, 1974, to June 30, 1978, the Atlantic Region accounted for only 3.13% of the total number of cases of foreign-based acquisitions; and that the number of reviewable cases related to new businesses for the Region for the period October 15, 1975, to June 30, 1978, was a dismal .61% of the total for Canada.² Clearly, the Region is not attracting sufficient investment dollars from the private sector to keep from falling further behind the rest of the country, let alone to enable the Region to become a net contributor to the federation.

The Council attempted to ascertain the causes of this problem and in its discussion with business people constantly encountered the response, "lack of confidence". The central government was often held out as the source of much of the blame over many years. Measures judged good for the national economy as a whole have often been perceived in the Region as restricting its natural economic growth, while measures afforded for the

¹ "Special Report on Business - The National Economy", The Globe and Mail, Toronto, June, 1977.

² Correspondence from FIRA Research and Analysis Branch, August 8, 1978.

Region have not always had compensating benefits in the form of alternative means of productive endeavour. The Council is not anxious to blame anyone. It does recommend a stronger corrective role for the federal government in guiding the national and regional economies so that business regains sufficient optimism to wish to invest in the Region.

Principles for treatment of the Region's economic problems have been discussed elsewhere in this report. The Council recommends new, well-defined roles for the Region in the national economy and the honest recognition of the need for, and the application of, the concept of regional differences in defining and implementing national policies. The Council furthermore expects, in the policies and actions of both the federal and provincial governments, a respect for the profit motive and a recognition of the input the business sector must produce to enable the Region to develop. A strong, healthy interface between the two levels of government, and between them and the private sector, is regarded as essential to defining the Region's future and restoring confidence.

If business is to feel positive about the Region's position and its potential, it needs a clear statement from government of specific long-term policies for the Region. Given such assurances of intent as the Council recommends elsewhere in this report, business could then be expected to maximize identified opportunities in the resources sector; to encourage innovation and the more rapid adoption of new technology; and to increase productivity, efficiency, market sizes and education levels. The Council considers it futile, however, to expect that business, least of all from outside, would commit itself to the Region's development unless it could regard the values of doing business in the Region equal to, or better than, those of investing elsewhere.

Business representatives have noted that the incentives for business to invest in the Region are often insufficient to overcome the Region's perceived disadvantages within the national economy. Business costs in the Region are high due to transportation costs, climate, small local market, relatively high taxation, small production runs, production 'down times', and high capital/output ratios. The Council

recognizes that it is not possible, at least in the short run, to remove some of these obstacles to more effective performance in the limited roles played by the Region in the national economy. It does foresee opportunities which would result in attracting a higher level of investment and a more efficient utilization of capital, particularly if the regional economy were reoriented to new imperatives for the nation as a whole. Some of the difficulties may be eased considerably by adjustments in existing instruments for business development, others by making deliberate exception for the Region, and still others by regional initiative and joint action between government and the private sector. In all these matters, the Council offers recommendations which it considers appropriate to the economic state of the Region.

The Council acknowledges that one reason for low level capital investment is a lack of awareness of what the Region has to offer, due primarily perhaps to a lack of attention and cohesiveness in the people of the Region themselves. The resources devoted to marketing the Region and its opportunities to potential investors are considered quite insufficient. A new, co-operative marketing organization, an Atlantic Region Marketing and Development Association (ARMADA), is proposed whose primary role will be to "hustle" business for the Region.

It is important that business and governments in the Region co-operate to publicize business successes. By convincing its own people of its capabilities and performance, business can help remove dispiritedness in the population in general. If people have confidence in the private sector, they will exhibit a greater desire to remain in the Region and to invest their own capital and labour in its future. The Council considers the Atlantic Canada Plus program of the Atlantic Provinces Chamber of Commerce, to stimulate awareness and purchase of goods produced in the Region, as a significant opener for a long campaign.

Small business is especially important to the Region because it employs a high proportion of the working population and is the sector from which much innovation springs. Small businessmen find it particularly difficult to raise equity capital. Costs of financing are generally higher for small

business than for large, and the small businessman is often at a disadvantage in preparing a sophisticated business plan for presentation to a potential investor. The Council agrees with the view of the Government of Canada expressed in 1973 that "Canada's smaller enterprises and entrepreneurs are fundamental to a future where we, as Canadians, gain greater domestic control over our own well-being".¹ Such a view has particular application to the Atlantic Region. Some of the Council's recommendations are intended particularly to strengthen confidence and performance in the small business sector of the Region's business community.

Much of the Council's 1971 development strategy for the Region placed the major burden for job creation on the manufacturing sector. Unfortunately this sector did not, in the time period 1971 to the present, live up to Council's expectations. Current analysis supports the emphasis placed on manufacturing in 1971. The Council considers that a stronger contribution from this sector is possible in future, if accompanied by a move to freer trade in selected products, and a reorientation to manufacturing for the regional market and for export. In the Council's view, the Region's manufacturing sector needs more and better incentives for investment, and more sophisticated marketing for many of the Region's products.

The recommendations which follow address specific problems as described, and should be considered, in the Council's view, as a special package needed in the present circumstances of Atlantic Canada to restore confidence in the business community and spur investment in the Region. These recommendations involve modifications for the Region in business tax legislation; support for venture capital formation; adjustments in the program of the Regional Development Incentives Act; attention to the Region by Canada Development Corporation; encouragement of research and development pertinent to the Region's resources; selective changes in tariffs and non-tariff barriers to promote export of manufactured and more highly processed goods from the Region; inter-governmental collaboration in promoting the Region as an attractive place for investment; and support for training at the working level in industry, entrepreneurship and general business management.

¹ The Honourable Alastair Gillespie, "Statement on Small Business", Ottawa, Department of Industry, Trade and Commerce, July 11, 1973.

Inverse-Tax System for Manufacturing
in the Atlantic Region

The Council supports immediate and detailed evaluation, and adoption within the Atlantic Region at a scale appropriate for economic development, of the recent proposal by one of Canada's chartered banks for the introduction of a manufacturers' inverse-tax system. Under this proposal the tax rate would vary inversely with the proportion of value added, and would replace an existing tax which acts indifferently to value added. The effect of the proposed tax would be to provide some degree of tax relief for many manufacturing firms of the Region and a strong incentive to all to increase value added.

Since value added would be defined as the difference between revenue and the cost of energy and raw materials purchased, and would not include subtraction of capital, the proposed tax system would be a neutral one, favouring neither capital nor labour. A feature of the system would be the adjustment of the scale of tax rates up or down to compensate for changing circumstances, especially when a company has little or no control over the changes, and it could also be adjusted to recognize public policy goals such as regional economic development.

It is possible that the proposed tax might be considered an indirect tax under the General Agreement on Tariffs and Trade (GATT), rather than as a direct tax. Part of the tax could be rebated on Canadian exports and added on to imports if GATT were to deem it an indirect tax.

The flexibility of the proposed system is considered highly desirable for application to the manufacturing industry in the Atlantic Region. Regional problems such as very high energy costs in some locations could be allowed for in the scale of tax rates. Encouragement might be given to primary manufacturers to expand into secondary processing. Vertical integration among Canadian-owned companies may also be encouraged, to replace some foreign sources of supply. The proposed system, if implemented, would present a continuing challenge to the individual manufacturer to improve his tax rate by more efficient management of available resources, and would help improve competitive positioning for manufacturing in the Region generally.

Tax-Free Debt Instruments for Atlantic Canada

To encourage the establishment of medium to large capital intensive industries in the Region, the Council recommends the establishment of a provision in the Income Tax Act for tax-free debt instruments allowable in Atlantic Canada only. The provision would allow corporations that meet certain guidelines to issue debt, the interest payments on which would be tax free in an investor's hands, and the interest costs to the corporation would be deductible from its taxable income. The purpose of such a measure would be effectively to reduce the cost of capital in the Region and thus provide an incentive to choose the Region as a place to do business.

Guidelines for allowable businesses might include the following:

- (a) a minimum level of job creation,
- (b) minimum and maximum limits on total debt issues which are exempt,
- (c) application of normal criteria of the market-place to test the proposal's viability for the raising of the capital needed, and
- (d) approval of both federal and provincial levels of government, with discretion to guarantee loans, or portions of loans, under certain circumstances.

It is not envisaged that the proposed measure would become a permanent advantage for the Atlantic Region in reducing cost of capital, but it would likely be required in the Council's judgement, for a ten-year period to be effective. The Council suggests that, if adopted, the measure be reviewed in five years and reinstated if the Region has not made substantial gain by then in reducing economic disparities with the rest of Canada.

The Council also recommends an examination of the desirability for provincial and municipal governments in the Region to loan money to corporations on a tax-free bond basis under certain circumstances. A corporation might thus be enabled with reduced financing costs to carry out, for example, an environmental control program in a resource-based industry. The Council appreciates that restrictions would have to be placed on use of such a mechanism, particularly since key decisions on viability and credit-worthiness would not be left to the marketplace, as in the case described in the paragraphs immediately above. Governments are allowed to issue tax-free bonds for worthwhile purposes in the United States, apparently with some success.

Other Tax Incentives, Particularly for Stimulation of
Private Venture Capital in the Atlantic Region

The long-term capital needs of small businesses have been a subject of much discussion and numerous studies over the years. As early as 1931, a British Parliamentary Committee under the chairmanship of Harold Macmillan concluded that there was indeed a shortage of funds in the United Kingdom for small businesses which had outgrown the resources of their original founders but were not large enough to seek public ownership through a public offering of their securities. This shortage in long-term capital has since been labelled the "Macmillan Gap", and the term has also been applied to a similar capital shortage in the United States.

To date it appears that no detailed analysis, utilizing a large sample, has been conducted to develop an accurate figure on the size of Canada's "Macmillan Gap". A consensus appears to be growing, however, that there are sound business ideas and projects which for one reason or another do not obtain adequate equity financing.

The availability of venture capital is dependent on the general economic risk and return potential of other types of investments, the general economic situation, and the perceptions of various investors and their particular definitions of risk. The objective of the venture capital investor is not

necessarily venture capital investment for its own sake, but rather higher than average return for the best possible mix of acceptable risks. Any venture capital firm, private or public, is thus investing to achieve the highest possible growth rate in the shortest possible time with the least amount of risk exposure.

Venture capital companies would appear to be the most appropriate vehicle for providing risk capital to small businesses. Federal legislation enacted to allow small business investment companies would be a logical step in the development of a comprehensive program to encourage small business equity financing involving both the private and the public sectors.

The Venture Enterprise Investment Company (VEIC) Program presented by the Minister of State for Small Business in May, 1978, represents an attempt to respond to the problem. Taxation of VEIC's and VEIC shareholders, however, is being described as 'back end', rather than 'front end'; that is, there is no immediate incentive given to an investor to place funds in a VEIC. Tax benefits are derived 'down the road', as follows:

- (a) eligibility for dividend tax credit by designating all VEIC distributions to shareholders as dividends,
- (b) opportunity to write off one-half of capital losses realized as a VEIC shareholder on other income on an unlimited basis, and
- (c) capital gains tax credit if gains are reinvested in VEIC's within one year from date capital gain is realized.

Examination of the life cycles of venture capital companies indicates that a cash flow from investments is not forthcoming on the average until the venture capital company has been in operation for about five years and does not reach a peak until about fifteen years.¹ In the early years of operation, therefore, the opportunity to write off 50% of capital losses against other income on an unlimited basis is not a powerful incentive. When compared with existing incentives for investments in:

¹ Robert H. Grasley, "The Availability of Risk Capital for Technological Innovation and Invention in Canada", Ministry of State, Science and Technology, Ottawa, 1974, p. 28.

- (a) the Canadian film industry, which allows on paper for a 100% write-off (in reality it can be considerably more), and
- (b) general research and development, which allows a 100% write-off, an investment tax credit, plus a 50% income deduction on any increase in R & D expenditure over the average level of the past three years,

the proposed incentive to invest in a VEIC as it is presently structured is clouded. Since any money invested in a venture capital formation is done in the light of risk and return, it appears to Council that any program initiated by government to stimulate venture capital investment must provide adequate 'front end' incentive to encourage investors to part with funds. A 'front end' incentive for VEIC's in the Atlantic Region is therefore recommended.

The Council recommends that additional tax incentives be allocated to any investments placed in operations located in Atlantic Canada. The investment tax credit program introduced by the Minister of Finance in March, 1977, was a most welcome recognition of the need for higher investment tax credits in slower growth regions. Although it may be some time before sufficient data on actual experience can be analysed for evaluation purposes, Council's view from hypothetical calculations is that the tax credit rate applicable in the Atlantic Region does not constitute sufficient incentive to attract new investment to the Region in the face of the higher costs a business can expect in such forms as energy prices and local taxes. While applauding the principle of the measure, Council suggests that it be reviewed to ensure that it enables a positive incentive to be exerted to attract new business investment to the Region.

The Council has been impressed with the capacity of generous tax incentives (e.g., 100% write-offs and "super depletion" allowances) to attract funds into the Canadian film and frontier petroleum industries as important national endeavours. A similar measure in its view would be most appropriate for limited application to activities which might unlock economic development possibilities for the Atlantic Region. The involvement of private capital in aquaculture

operations, as a specific example, is well established in other countries, and might have substantial possibilities in the Atlantic Region in high-value fish species native to the Region and subject to the necessities of rigid conservation measures. The precedents established for the film and frontier petroleum industries warrant close attention in the Atlantic Region, not only because they are attracting investment funds out of the Region, but because such a device could have the reverse effect for much-needed investment in the Region. The Council recommends that careful consideration be given to selecting a new growth industry with natural potential in the Atlantic Region for a special tax incentive equivalent to those for the Canadian film and frontier petroleum industries.

Freer Trade

On the basis of available evidence, the Council supports the position taken by Canada in the current round of GATT negotiations. Canada is seeking a slow phase-out of industrial tariffs; reductions in tariffs and non-tariff barriers on many agricultural products; greater market access for fish and fish products; and improved discipline and fairness in the international trading system. These negotiations are vital to the economic future of the Atlantic Region and warrant intensive and continuing input from the Atlantic Provinces and dialogue with the national authorities as negotiations progress. If successful, the negotiations may achieve greater access to foreign markets for the Region's exports and possibly more sophisticated processing of goods production in the Region than has been possible under existing tariff arrangements. Job creation targets for the Region in manufacturing (see Chapter 9) may well depend in large measure on the outcome of these negotiations.

From a simulation utilizing an econometric model and described in its 1978 publication "For a Common Future", the Economic Council of Canada envisages Canada's comparative advantage in international trading by the year 2000 as being derivable primarily from primary production and resource

development. Special strengths are likely in fertilizers, iron ore, grain, paper products, residual mining (uranium and asbestos), wood products, other forestry items, and other agricultural products. Much overlap exists between this list and the current main export-oriented industries of the Atlantic Region (see Table 32).

Another study, prepared for the Economic Council of Canada in 1978 by Roma Dauphin and entitled "The Impact of Free Trade in Canada", indicates that the Atlantic Region would derive more than twice the benefit in real income as Canada as a whole if Canada were to proceed unilaterally to a free trade policy, and might even attract job-seekers from other parts of the country.

The Economic Council of Canada also revealed in 1978, however, that 127 of some 900 categories of products manufactured in Canada were being seriously challenged by imports, largely from Third World countries. The categories deemed most vulnerable were textiles, clothing, wood products, electrical apparatus, leather goods and footwear, toys and sporting goods. Employment in these industries by region in Canada is shown in Table 33. One of the areas mentioned as susceptible to disruptive effects was the Truro area of Nova Scotia, where seven per cent of the labour force was employed in these vulnerable industries. Clearly the Atlantic Region would not entirely escape the ill effects of a move to freer trade, although on balance the long-term effects would be favourable.

A move to trade liberalization by Canada would likely have to be gradual to accommodate economic structural changes in areas of the country more seriously affected than the Atlantic Region, as Table 33 indicates. Transitional measures orchestrated at the national level would have to be applied to assist in the rationalization of vulnerable industries and to enable the people affected to find employment in more competitive activities. Successful economic transformations have occurred in the New England States and Sweden, for example, in recent years and merit close study.

TABLE 32

Atlantic Provinces Exports Composition
1969, 1974, 1976

Commodity Group (consolidated)	% of Total Exports		
	1969	1974	1976
Fish & Fishery Products	18.3	10.5	15.6
Metallic Minerals & Scrap	21.8	18.2	27.5
Non-Metallic Minerals	2.3	3.8	3.4
Wood & Wood Products	41.0	38.8	31.5
Other Food & Feed Products	6.3	3.5	2.5
Other Crude Materials	0.3	0.4	0.8
Other Fabricated Products	9.5	23.2	17.6
Unspecified Items	0.5	1.6	2.5
	100.0	100.0	101.4 ^(a)

Source: John Earl, "Tariffs and other National Trade Policies and Programmes as They Affect the Atlantic Region", Special Report to the Atlantic Development Council, Fredericton, 1977, Table 7.

(a)

Total exceeds 100.0 due to rounding.

TABLE 33

Employment in Six Vulnerable Industries by Region
Canada, 1971

Industry	Atl. Prov.	Que.	Ont.	Prairie Prov.	B.C.
	(Thousands)				
Leather goods	0.3	13.6	13.4	1.0	0.4
Textiles	1.7	35.5	28.6	1.6	1.3
Knitting mills	1.2	9.8	6.4	0.5	0.3
Clothing	0.6	61.7	21.2	8.7	2.4
Elect. (vulnerable subsectors only)	0.3	7.3	21.5	1.4	0.8
Sport. goods & toys	0.1	3.2	6.2	0.2	0.3
Total	4.2	131.1	97.3	13.4	5.5

Source: Based on data from Statistics Canada.

Economic Council of Canada, "For A Common Future",
(Ottawa: Supply and Services, 1978), p. 58.

For the Atlantic Region the transition would be greatly eased by the strengthening of the resource-based industries in the meantime, so that they can absorb people from non-competitive activity and develop capability in higher forms of secondary processing. This will be a formidable task for the Region, but one of increasing national importance as once-strong industries of the country weaken.

The Council accordingly recommends a carefully phased move toward freer trade between Canada and its trading partners, with concessions by Canada on a selective basis, and transitional measures as appropriate, to minimize the disruptive effects on the people most seriously affected.

Regional Development Incentives Act (RDIA) -
Proposed Adjustments for Operation in the Atlantic Region

Direct federal incentive grants to industry are now provided mainly under the program of the Regional Development Incentives Act which came into force July 1, 1969, and is administered by the Department of Regional Economic Expansion. Because of the comparative state of the Region and the slow growth of the Region's manufacturing sector in the seventies (see Chapter 1), the Council suggests a number of ways in which the program might be changed for greater impact in the Region. It is still considered a valuable program to assist in industrial start-up and modernization, and serves purposes not adequately covered by tax incentive measures proposed earlier in this chapter.

The purpose of the program is defined in the Regional Development Incentives Act as follows:

"to provide incentives for the development of productive employment opportunities in regions of Canada determined to require special measures to facilitate economic expansion and social adjustment".

At present there is virtually no 'incentive' under RDIA to locate an industry in the Atlantic Region rather than elsewhere in Canada, since the Act applies in some degree to all provinces including the Montreal area of Quebec. The standard formula now differentiates in favour of the Atlantic Region only on the wages and salaries component of the incentive; the percentage of accumulated capital costs (ACC) is the same for all regions. To the extent that the Minister may decide in the individual case not to pay the maximum allowable under the formula, the bias towards the Atlantic Region is further eroded. Disadvantages inherent in the Region's geographical location, topography, climate, and small immediate market cannot come close to being compensated for by such minor relative adjustments in RDIA benefits.

RDIA is further lacking in the area of job maintenance and stabilization in that it does not provide adequate incentives for increases in plant efficiency through modernization. Current emphasis is placed more on job creation in new ventures than on the maintenance of already existing jobs which may be in jeopardy.

In recognition of the historical causes of the Region's failure both to develop a strong manufacturing base and to become a net contributor to the Canadian union, the Council recommends that the Regional Development Incentives program be amended exclusively for the Atlantic Region as follows:

- (a) that the standard formula used by the Department of Regional Economic Expansion to determine the amount of a development incentive for new facilities or new product expansions (Categories A and B) under RDIA be changed so that the lowest of the four ceilings, as may be applicable in the individual case, will become the standard formula for the Atlantic Region and be provided as a true incentive for eligible and credit-worthy applications;
- (b) that in view of the comparatively low productivity (capital and labour) of the Atlantic Region, as attested by the Economic Council of Canada in its 1977 report "Living Together", and the critical need for job maintenance and stabilization, the

incentive for eligible and credit-worthy applications for modernizations be increased for the Atlantic Region from 20% to 50% of the approved capital costs, subject to the \$6 million ceiling;

- (c) that a key role in the processing of applications for regional development incentive grants be offered to the chartered banks (and possibly to other approved lending institutions) so that the program will be as accessible and responsive as normal banking services and subject to the same commercial tests of viability, except for considerations of national policy which the administering department would have to retain in consultation with other federal departments;
- (d) that 50% of the development grant be made available for progress payments during construction concurrently with loan advances from the bank, so that the risk is shared proportionately between DREE and the bank, and that assets created are also proportionately secured in the event that the project fails before reaching commercial production;
- (e) that the merit in funding an initial-processing operation in a resource-based industry, such as a zinc smelter, be given consideration in the Atlantic Region; and
- (f) that the development incentive in respect of property no longer decrease the capital cost thereof, making capital cost allowance available on that portion of the grant, improving the benefit of the exemption from taxation under Section 12 of the RDIA.

Increased Orientation to Equity Financing in the
Federal Business Development Bank (FBDB)

For many years the bulk of the financial services of the FBDB and its predecessor, the Industrial Development Bank, has defined it as a term lender 'of last resort'. In this capacity it has proven itself useful to many businesses of the Atlantic Region, and holds promise in its present form, in combination with the consolidated business assistance programs of the Department of Industry, Trade and Commerce (ITC), of improving on its past record of accessibility. Recently, moreover, the Bank has established itself as one of the largest sources of venture capital for small and medium sized businesses in Canada, although the portion of its total funds available for this form of financing is still very small.

The Council supports a substantial increase in the equity investment activities of the FBDB, accompanied by a particular emphasis on funding very small businesses. A significant proportion of this increase in funds could also be directed to financing high technology, higher risk activities in the Region.

Research conducted in 1974 by Robert H. Grasley for the Ministry of Science and Technology to determine geographical location of funds reported available for venture capital investment indicated the following:

<u>City</u>	<u>\$ '000</u>	<u>% of Total</u>
Vancouver	11,850	18.0
Calgary	4,150	6.0
Winnipeg	750	1.1
London	1,000	1.5
Toronto	26,400	40.0
Montreal	21,825	33.1
	<hr/>	<hr/>
Canada	65,975	100.0
	<hr/>	<hr/>

As is apparent, ninety-one per cent of venture capital funds reported available for investment at that time was located in three centers, Vancouver, Montreal and Toronto. Severe gaps exist elsewhere, with Atlantic Canada apparently void of formal venture capital firms. The Region's situation has not improved significantly since 1974, and Council proposes that the FBDB be employed to fill at least part of the void in Atlantic Canada.

An examination of the Small Business Investment Companies (SBIC's) operating in the United States indicates that, despite what was expected in 1958 when they were created by Congress, they do not usually serve the needs of very small businesses - the 'mom and pop' size businesses. SBIC's are interested in maximizing their own capital gains. The costs of making a small loan or investment, including full investigation of the concern and of the persons involved, make the loan either prohibitively expensive to the borrower or thoroughly unprofitable to the lender. SBIC's cannot profitably operate in the role of financiers for very small businesses unless special incentives are enacted.

The FBDB organization is already established in the very small business community. Its mode of operation, developed over many years, brings it in close contact with business people in the smaller and outlying communities. This is a particularly valuable service in the Atlantic Region, since many business people cannot travel great distances to seek equity financing. Since the FBDB managers and staff are now involved in equity financing, the Council recommends that they use this additional flexibility to cultivate entrepreneurship in the very small business community as well as in the Region at large, and that the proportion of FBDB funding available for equity financing be increased to help fill the business needs of the Region.

Inclusion of the Atlantic Region in the
Purview of the Canada Development Corporation (CDC)

CDC was created by Act of Parliament proclaimed on November 18, 1971, with substantial federal funding and with a purpose enacted as follows:

"to establish a corporation that will develop and maintain strong Canadian controlled and managed corporations in the private sector of the economy and will give Canadians greater opportunities to invest and participate in the economic development of Canada".

Shortly before the writing of this report, the Government of Canada was reported to be still in ownership of 68% of the Corporation.

To date CDC has invested its available funds to the virtual exclusion of Atlantic Canada. Table 34 contains a list of current CDC investments and their respective locations. The Corporation has no formal ties apart from two directors, no venture capital affiliate, and no direct investment in Atlantic Canada. Correspondence and discussions between the Council and the Corporation have at least suggested that the Corporation is not unwilling to invest in Atlantic Canada and that it may have tried to form, and is still anxious to find a group of regional entrepreneurs interested in forming, a venture capital company for the Region similar to those already formed in other regions of Canada. Indirectly there has been some degree of involvement in Atlantic Canada, principally through the exploration activities of companies in which CDC holds shares.

Much of CDC's investment portfolio is confined to fixed medium and long-term commitments. CDC management, however, has indicated in discussions and in its 1977 Annual Report a desire to reformulate its portfolio to provide up to one-third for new investments, including some increase in venture capital investment from the present level of about 2%. The Council regards this intention as of much potential significance for the Region, in view of its concern about the scarcity of venture capital expressed earlier in this chapter.

The Council is extremely disappointed, nevertheless, that CDC as yet has made no substantial investment in the Atlantic Region. If indifference to the Region is not the cause, then it would appear that the Corporation regards the Region as devoid of significant investment opportunities "likely to benefit Canada" (in the words of the Act). The Council appreciates that the Corporation's first duty is to its shareholders, but in view of the Corporation's purpose and its lack of a corporate presence in the Region, the Council recommends that a diligent search be undertaken to find investment opportunities in the Region that satisfy both the Corporation's public and private commitments.

TABLE 34

Canada Development Corporation
Capital Structure at December 31, 1977

Investment Type	Assets (\$ Mil)	Location (Primarily)
Petrochemicals	1,314.0	Sarnia, E.E.C.
Mining	367.9	Worldwide-Incl. Timmins (Ontario) North Carolina, Saskatchewan
Oil & Gas	187.3	Western and Arctic Canada, Louisiana
Health Care	108.7	Toronto, Montreal, U.S., Edmonton, Copenhagen, Africa, Far East
Venture & Expansion Capital	12.3	Winnipeg, Vancouver, Toronto Montreal
Other	75.9	Cash, short-term investments
Total assets	2,066.1	

Source: Canada Development Corporation. "Annual Report 1977" British Columbia, 1977.

Note: CDC also acquired direct control of AES Data Limited of Montreal and Wordplex Corporation of Westlake Village, California, as of July 31, 1978. (Total initial investment, \$35 million.) Source: "Report on Business, The Globe & Mail", July 26, 1978.

Elsewhere in this report the Council recommended that the Government of Canada set a good example to national corporations, and apply moral suasion for them to do likewise, in distributing some of its "national" operations to the slow growth regions of the country in the interests of regional economic balance. The recommendation applies equally to corporate instruments created by the Government of Canada for national purposes. Since the Government of Canada is the principal shareholder in CDC, the Council is obliged to ask if the interests of Canada as a whole are being adequately represented by its two ex officio federal government members on the CDC Board.

The Council has had representations from the Region that an Atlantic Development Corporation be established on a basis similar to that of CDC. The more desirable solution, in the Council's view, would be for the Region to receive due attention from a corporation already established, rather than set up another corporation in default.

The Council has a number of further suggestions:

- (a) that CDC establish close relationships with provincial development departments and corporations of the Atlantic Region to facilitate the search for suitable investment opportunities in the Region,
- (b) that regional entrepreneurs seeking investment partners or financing of major developments in resource fields solicit the interest of CDC, and
- (c) that the Government of Canada, as principal shareholder, request the CDC to make a conscientious effort to participate in the economic development of the Atlantic Region.

Improving the Environment for Research and Development,
Invention and Innovation in the Atlantic Region

Canada's lacklustre performance in research and development has been well documented by such organizations as the Organization for Economic Co-operation and Development (OECD), the Science Council of Canada, and the National Science Foundation. Canada now spends less than 1% of its Gross Domestic Product on research and development, having relied to a large extent on branch plant technology of foreign firms. The President of Northern Telecom Limited, Walter F. Light, recently commented: "It is little wonder that in an earlier OECD analysis of ten industrial countries showing the range and scale of technological innovation, Canada ranked tenth and last".

Within Canada, if one is to judge from provincial distribution of ITC assistance for research and development, the Atlantic Region is now least oriented of all to the constant need for innovation in industry.

Research and development is at the core of the kind of economy the Council would wish to see developing in Atlantic Canada in the 1980's, 1990's and beyond. There are opportunities for technological innovation, product diversification, and improved marketing in all of the Region's resource industries, as well as in unconventional energy sources, existing manufacturing industry, and general consumer demand. It is in the common interest of governments, the private sector, universities and ingenious individuals to create a climate for rewarding research and development effort in the regional economy.

The Council is hesitant about advocating special government assistance programs for research and development in the Region, in view of the measures recently announced by the Minister of Science and Technology and the fact that relatively few regional firms have taken advantage of assistance programs available through the Department of Industry, Trade and Commerce. It appears particularly useful for the Region to organize a campaign among the business community and its organizations, with support from provincial and federal departments and agencies concerned, to explore thoroughly the

dimensions of need and opportunity for research and development specifically relevant to the Region's potential. In the Council's view, opportunities for the Region inherent in a move toward freer trade, and the need for industries of the Region to be ever more energy conscious, offer special inducements for regional industry to strive to become more competitive through innovation and enterprise.

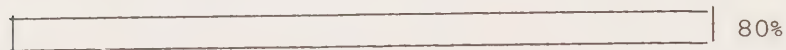
A focus for regional innovation might be found in preparing a catalogue of specific technical problems encountered in the basic industries of the Region, to facilitate the application of small-scale or appropriate technology to their solution. A regional branch of the Technical Information Service (TIS) of the National Research Council, if devoted to regional problems and located in the Region, would be particularly helpful in providing consultation on identifying technical problems and productivity improvements in manufacturing, and in suggesting scientific approaches particularly for smaller manufacturing or processing firms.

Estimates indicate that about one person in a thousand is an inventor. The Region's share could thus be estimated at over 2,000 present or potential inventors. These individuals may be unearthed and encouraged to attempt specific tasks through inventors' fairs, science conventions, regional awards programs similar to "Design Canada" awards and the Governor General's Award for Engineering Design, and other publicity of their value in a dynamic regional economy. That basic new inventions originate primarily with individual inventors and small businesses is clearly indicated in the study by Grasley already cited in this report (see Chart 2). The same study provides a remarkable list of important twentieth century inventions, such as xerography, catalytic cracking of petroleum, the ball-point pen, and the automatic transmission, that have been the work of independent inventors and small organizations. Past technological achievements in the Region have been considerable, including the processing of kerosene and the first usable pulp newsprint, and the invention of the screw propeller, the steam fog-horn, the variable-pitch propeller, and the R-Theta computer system for air navigation. Publicity about such achievements is recommended to help foster attitudinal change in the Region.

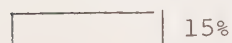
CHART 2

Sources for Inventions by Category

BASIC NEW INVENTION - MAJOR



Individual Inventor & Small Companies



Research Associations & Publicly Funded Laboratories

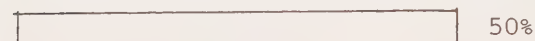


Large Companies

DEVELOPMENT INVENTION



Individual Inventory & Small Companies



Research Associations & Publicly Funded Laboratories

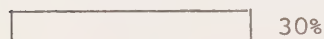


Large Companies

INVENTION AROUND INVENTION - MINOR



Individual Inventory & Small Companies



Research Associations & Publicly Funded Laboratories



Large Companies

Source: Robert H. Grasley, "The Availability of Risk Capital for Technological Innovation and Invention in Canada" (Ottawa: Ministry of State, Science and Technology, 1974), p. 67

If the Region is to develop new products, found new enterprises, acquire a competitive edge in its natural strengths, and contribute to Canada's balance of trade as a strong exporter, it must ensure that an environment exists which encourages individuals and small businesses in the Region not only to innovate but to be able to realize the benefits of innovation within the Region. Studies by Cooper (1975, 1976) and Cooper and McGown (1977)¹ substantiate the suspicion that industrial product developers, despite their unique skills, often lack a market orientation, and appear particularly weak in undertaking market investigations, assessment and research. Market-oriented activities are precisely those which are most critical in the commercial success of new industrial products. If the Region is to capitalize commercially on innovation, basic training and guidance should be easily accessible to inventive people, as well as the encouragement of an appreciative investment climate within the Region to protect their interests.

The Council is encouraged by the recent policy of the Government of Canada in respect to fostering research and development more actively. In addition to a tax incentive, these measures include assistance in the development of regional centres of excellence, increased university funding, opportunities for greater technology transfer between government and industry, government procurement favouring Canadian research and development, and screening for Canadian research and development content by the Foreign Investment Review Agency.

In the light of past experience the Council is not convinced that the tax incentive recently introduced is sufficient to stimulate a high level of research and development in the Atlantic Region. The standard 100% deduction has been increased by the deduction from taxable income of a 50% additional allowance for the amount by which a company's expenditures on research and development in a given year exceed the average level for the three years preceding. This additional allowance is a resurrection from the 1962 Income Tax Act and replaces benefits under the Industrial Research and Development Act, which has been repealed and which at its maximum offered

¹ Robert G. Cooper, "Winning the New Product Game", Montreal: McGill University Press, 1976.

Robert G. Cooper and K.L. McGown, Papers presented at Annual CAAS Meetings 1977, 1978, Quebec City: Laval University.

a somewhat larger benefit. The maximum benefit now available in Canada is still considered somewhat below the minimum benefit available in the United States, where further tax concessions are being considered because of concern about stimulating research and development to keep U.S. industry competitive.

To develop a substantial research and development capability in the Atlantic Region consistent with the objectives of its strategy, the Council feels that a further tax credit, in the order of 25% additional to the basic 100%, should be offered on research and development expenditures actually carried out in the Atlantic Region, on the same principle of regional differentiation that already applies in investment tax credits generally. This additional regional benefit would attract research and development activity to the Region that might not come otherwise, and would induce regional firms (including multinationals operating in the Region) to be more active in this respect.

Establishment of an Atlantic Region Marketing
and Development Association (ARMADA)

One of the difficulties Council has naturally encountered in designing a regional development strategy is the absence of political and administrative organizations responsive to particular needs of the whole Region. Recognizing provincial realities, the Council has generally wished to avoid recommending the creation of regional machinery for economic development purposes, although it has not hesitated to advise on subject matter in which collaboration among the provinces would appear to be of mutual advantage. One area in which creation of a regional instrument might be beneficial, in the Council's view, and provide a focus for federal assistance in a variety of forms, is external marketing.

There are two principal aspects to consider: one, the promotion of the Region as an attractive location for foreign investment and, second, enhancement of intra-regional trade and export potential. Some of the needs discussed below have been identified in a series of discussions Council had with representative businessmen from the four provinces. Others have become evident from studies and analysis which the Council had carried out in relation to the Region's economic condition.

Nearly every issue of any major business publication contains an article on the success of some country of the world which is striving to attract external development capital. Many of these countries are described as 'lesser developed countries' and some are relatively small in size. Atlantic Canada might be viewed as a 'lesser developed' part of Canada, a relatively small portion of Canada's total geographic magnitude, and in some ways comparable to these developing countries. Yet, it has failed to make the list of 'preferred selection sites'. Reasons for this might include:

- (a) non-competitive incentives packages;
- (b) lack of impact from:
 - size of development departments' budgets,
 - small promotion budgets, and
 - lack of sophisticated marketing training;
- (c) emphasis by provincial development programs on internally generated investments;
- (d) the possibility that regional in-fighting to attract new business might drive away some potential investors; and
- (e) lack of autonomy over all decision variables related to investment, especially those affecting general economic climate, tariffs and non-tariff barriers, repatriation of investments, and tax exemptions.

For whatever reasons, FIRA statistics cited earlier confirm the current lack of interest in the Region among foreign investors. The Council believes that, to enable the Region to satisfy its development goals, higher levels of external as well as internal investment are most desirable. Since it appears that current schemes for attracting external investment are not effective, new ways of inducing investment into the Region should be considered.

The example has often been cited as a commendable one in which the Atlantic Provinces have been collaborating in advertising their attractiveness for tourists. Collaboration is also quite evident in Atlantic Loto. In the Council's view, it would be beneficial to all four provinces to extend this form of collaboration to some other fields, particularly external marketing of regional products. This view is not being put forward so that provincial identities may be subsumed into a regional one, but only to suggest that for some purposes the combined resources of the four provinces may be put to more effective use for each than the more limited resources of the individual province.

One regional businessman invited to a recent Council meeting cited a number of cases in which he felt that people of the Region were not spotting ready opportunities to keep good business in the Region. In the case of a large capital public project in his home province, he said, the contractual package was drawn up in such a way that much of the supply, apart from such items as lumber, sand and gravel, was unnecessarily sourced not only outside the province but outside the Region. Had the requirements been carefully analysed for the purpose, and tendering packages broken out from the main project, many of the metal components as well were within the capability of manufacturing firms in the Region and, in his opinion, could have been supplied locally at competitive prices. The Council is aware too, for example, of standardized cupboard and laboratory units which are imported into the Region for school, hospital and other institutional building construction that might form part or all of the basis for a manufacturing plant or two somewhere in the Region. In the Council's view such opportunities merit constant analysis at the provincial level as well as at the regional level, and warrant support for the dissemination of information about the findings.

For such purposes as cited above, the Council proposes establishment of an Atlantic Region Marketing and Development Association. It is called here ARMADA, but another name might be preferable.

The Council recommends that on either federal or provincial government initiative a meeting be arranged at the development ministerial level to discuss working jointly on the establishment of ARMADA, which would be staffed and empowered to market the Region as a vigorous, developing area of Canada. Since ARMADA's primary goal would be to act as a co-operative vehicle for marketing and development on a regional basis, it would not supersede the responsibilities of the provincial development departments and agencies, but would provide a supplementary pool of expertise to assist them, to maximize intra-regional benefits from development efforts in any province, to advise on marketing campaigns for regional products, tourism and other services, and to attract external investment.

A cost-sharing agreement between the five governments would be required on terms that would assure each province equitable treatment from the joint agency. Responsibility on Canada's part should be vested ideally in the proposed department to be headed by the Deputy Prime Minister, who would have an overriding concern to ensure active support from all federal departments and agencies concerned. Management of ARMADA would be vested in a board of directors representative of each of the five governments, chaired on a rotating basis, if desirable, and the board would appoint the operating head of the association, and set by-laws to govern its operation and control. A headquarters location for ARMADA would be chosen by agreement in the Region. What is envisaged in ARMADA is not a new level of bureaucracy but the creation of a team of astute, sophisticated professionals in marketing, development, finance and trade analysis.

Attracting external investment funds is extremely expensive from the standpoint of both marketing and incentives costs and often a cut-throat undertaking. Business journals of world circulation abound in lucrative investment packages offered to prospective investors by the Phillipines, Great Britain, the Republic of Ireland, South Korea, Panama, and other countries, all competing for the kinds of development projects

needed in Atlantic Canada. In a recent competition for a new Ford engine plant, for example, the contribution of \$40 million offered by the Government of Canada had to be supplemented by a pledge of \$28 million from the Government of Ontario so that the plant would be located in Ontario rather than in Ohio.

ARMADA personnel would act, in co-operation with federal and provincial development departments, as seekers of potential industrial development funds for the Region. ARMADA would fulfil an important regional liaison role, seeking out potentially interested companies and assisting in the negotiating of development proposals to foster development in the Region. For purposes of attracting the attention of external investors, it is felt that the Region should advertise externally in competition with other advertisers. This is not to suggest that provincial advertising be replaced, but rather that the attractiveness of the Region as a whole is an advantage which a team of thoroughly grounded marketing and finance professionals, in close contact with governments, the business community and production capability of the whole Region, could exploit in the interests of each of the provinces.

ARMADA personnel might also be involved in the following important marketing and development activities:

- (a) Project identification:
 - identifying regional spin-off opportunities to supply materials, components and services,
 - import substitution opportunities.
- (b) Joint venture opportunities:
 - linking Atlantic Canada firms with overseas companies which have complementary strengths, particularly in areas of product development, marketing, and technical expertise, and an accompanying need for manufacturing capacity.
- (c) Licensing opportunities, providing:
 - a beneficial form of entry into the Region by foreign firms,
 - valuable technology which can lead to economic development, without an increase in foreign ownership,
 - stimulation of research and development in the Region.

- (d) Service industries incentive package:
 - identifying service industries which operate internationally for assistance in establishing export-based operations in the Region,
 - examining issues such as an export profits tax exemption, grants toward the cost of fixed assets, training grants, and other incentives which the Region might offer, to induce interested firms to establish in the Region.
- (e) Special studies (examples):
 - potential effect on the Region's competitive position, from an economic and marketing standpoint, of possible extension of the St. Lawrence Seaway navigation season,
 - feasibility of establishment of Atlantic Canada trading houses in world trading cities,
 - periodic re-examination of particular free trading zone concepts for the Region,
 - feasibility of any urban centre in the Region of becoming a "global city" for regional offices of multinational corporations (c.f., Coral Gables, Florida, and Makati, The Phillipines),
 - monitoring incentive packages of competing countries and regions,
 - untapped marketing opportunities for regional products.

Management Training and Entrepreneurship

In recognition of the need to upgrade management ability in the private sector as essential to the economic development of the Region, the Council in its 1971 strategy recommended the establishment of a regional management institute, to co-ordinate and assist financially in management training for practising business people, and a similar institute for labour leadership training. Both institutes were established with DREE assistance. The Atlantic Region Labour Education Centre has been well received and has evolved in a functional manner. The Atlantic Management Institute has been replaced, on evaluation, by a DREE agreement with the four provinces.

The Council remains convinced of the continuing need for both types of training in the Region for the development strategy now proposed, and is particularly concerned that the value of entrepreneurship be recognized and enhanced in the Region.

The management training agreement signed between DREE and the four provinces in July, 1978, commits a total of \$2.15 million over five years, cost-shared 80% by DREE. The breakdown is \$500,000 in each of the first three years, \$400,000 in the fourth year and \$250,000 in the final year. The funds are to be administered by a Management Committee which consists of representatives of the four provinces, DREE, FBDB and Federal Manpower. One of the major purposes of the Management Committee is to ensure that there is no duplication in programs or sources of funding first of all within the province, and secondly, among the provinces.

Although the Council appreciates the attention paid by both levels of government to the need to assist management training substantially, there are potential problems with the program as it is presently structured:

- (a) Since DREE negotiates the allocation of funds between the provinces a year at a time, funding problems may occur for ongoing programs if funding is not available for the complete program. If, for example, one province has a well defined program for the first year and receives the lion's share of the first year's money, it may not be able to receive funding to sustain its program over the life of the agreement. This might also lead to an allocation of funds which is neither favourable nor equitable;
- (b) The maximum amount of funds available to any province in any year might do little more than finance a program which is superficial in its treatment of management training; and
- (c) Management training programs may be structured and funded without thorough assessment of the needs of the individual provinces.

The agreement, moreover, on the face of it, represents a financial commitment to management training that will be declining over the five-year period. In the Council's view, the need for management training is unlikely to decline but rather to increase, if the implications of its development strategy are accepted for the eighties. The need for joint funding may decline if in the meantime provincial programs are geared to meet the needs, or if in practice it is found that fees charged for courses can be increased sufficiently to cover costs without discouraging participation.

The Council believes that entrepreneurs have a unique importance in the business sector, and in the economic development of the Region, that warrants a special attention to the refinement of their skills that is not normally accommodated in management training programs. Establishment of an Atlantic Region Entrepreneur Institute, in affiliation with one or more of the Region's management training institutions, might provide a focus for the special training and other activities which would cater to the needs of these special people. Some elements of training are envisaged, as well as the dissemination of information specifically oriented to the entrepreneurial mind. Participating entrepreneurs in turn would be encouraged to share their skills and insights in their home areas, particularly to young people and promising starters. What the Council has uppermost in mind is improving the climate of understanding and respect for the entrepreneurial role in the Region, and enlisting the keen support of entrepreneurs themselves in the process.

Identification of potential entrepreneurs in the general population is a matter of special concern that is already being addressed in a practical way in one of the provinces of the Region with DREE assistance. The Province of Nova Scotia and DREE have co-founded a project with a United States firm, Venture Founders Corporation (no equivalent Canadian firm is known to exist), whose purpose is to assist at any phase in the creation and early-stage expansion of independent businesses with substantial growth potential. The project involves a program of screening for more intensive

training, from a relatively large group of people with business-starting intentions, those with outstanding entrepreneurial abilities and practical business propositions that can be proceeded with in the Province. Venture Founders Corporation follows through in areas such as assessing strengths and weaknesses, organizing and researching a business plan, seeking venture capital resources, and post-decision counselling.

Recent communication with the Province indicates a high level of satisfaction with the program and an intention to enter into a contract with the firm for a second year. The first year's program has produced eleven hard-core, immediate action proposals and seven proposals that will likely be acted upon within the next year. Since the cost for uncovering these 18 potential businesses is considered most reasonable, the Council recommends that similar agreements be negotiated by the other three provinces.

CHAPTER 7

GENERAL SERVICES; TOURISM; FEDERAL
HOUSEKEEPING OPERATIONS AS AN INSTRUMENT
FOR REGIONAL DEVELOPMENT

Since, as noted in Chapter 1, the service industries now provide more than three-fifths of all employment in the Region, the array of activities involved is so large that individual treatment of them in a strategy review is extremely susceptible to diminishing returns and arbitrary grouping therefore becomes mandatory. Chapter 8 to follow discusses the major support services of transportation, energy and construction. The present chapter:

- (a) groups trade; finance, insurance and real estate; community, business and personal services; and public administration, all for discussion under the heading of General Services;
- (b) discusses Tourism, which is service-oriented, though to some degree resource-based; and
- (c) treats Federal Government Housekeeping Operations in the special context of potential value for the Atlantic Region if used more deliberately by the Government of Canada as an instrument for regional development.

PART I - GENERAL SERVICES

A large part of economic activity is concerned with production, which can be broadly divided into two categories, one that produces goods and one that produces services.

Economic development of an economy is usually accompanied by a reduction in the importance of goods-producing industries in relation to service industries. In fact, the maturity of an economy is often measured by the degree to which the shift to service industries has taken place. For decades the service sector has been the largest and fastest growing sector of Canada's economy. In 1977, 58% of Canada's employed labour force found employment in this sector. In the Atlantic Region the corresponding figure was close to 61%, up from 55% in 1970. In the New England States, a region not unlike Atlantic Canada in natural resource endowment, 58% of those employed in 1970 worked in service production, and projections of employment to 1980 are that this proportion will rise to approximately 61%¹. In the Atlantic Region, of the growth in employment between 1970 and 1977 of 124,000 jobs, 106,000 or 85% occurred in the service sector. One might conclude from appearances that the Atlantic Region's economy is already outstripping the nation and New England in maturity and pace of development.

In reality, the Council believes, the Region has been force-fed on federal transfer payments to produce an inflated service sector far beyond what a relatively large primary sector and a stunted secondary sector have been able to generate. The Council is not advocating a shrinkage of the service sector but rather a transformation of it so that it may be sustained by goods-producing and other service activity securely rooted in the Region on a scale that reduces unemployment in the Region to tolerable levels.

¹ Regional Development Plan: Summary: New England Regional Commission, Boston, Massachusetts.

The service sector is made up of a wide assortment of activities. The mix includes services performed by doctors, lawyers, teachers and other professionals; civil servants; musicians; wholesale and retail businessmen; store clerks; barbers; laundry workers; garage mechanics; travelling salesmen; and a host of others. Generalization is difficult. Much of the sector is characterized by small firms, low wages, and adaptation to formula methods of providing services to the public. Entrance requirements in skill and capital are often low, encouraging the absorption of surplus labour from other sectors of the economy into steady employment, so long as the volume of money in circulation is being sustained or increased. An important feature of money spent to purchase services locally is that it tends to stay in the Region one more round, in contrast to money spent on consumer goods, most of which are imported.

Table 35 gives a breakdown of employment in general services comparing 1970 and 1977. The fastest growing component was the finance, insurance and real estate segment although it is smallest in numbers of jobs. Almost half of total services employment occurs in community, business and personal services. Sixty-seven thousand people, or 15% of general services, are employed in public administration, which grew by 42% between 1970 and 1977, excluding teachers and hospital workers, who are included in the community, business and personal services group.

Growth of the service sector is generally believed to be dependent on growth in population, increased urbanization, growth in incomes, increased leisure, growth of government and the general level of economic activity. It is known that as incomes rise above a certain level, a higher and higher proportion of income is spent on services. Businesses of all kinds need services and the general business climate is a factor in the growth and well-being of the service industries.

TABLE 35

Employment in the Service Sector
Atlantic Region, 1970 and 1977

	1970	1977	% Change
	(000's)		
Trade	113	136	20.4
Finance, Insurance and Real Estate	20	30	50.0
Community, Business and Personal Service	160	213	33.1
Public Administration	47	67	42.6
TOTAL SERVICES	340	446	31.2
TOTAL EMPLOYED	612	736	20.3
SERVICE EMPLOYMENT AS % OF TOTAL	55.6	60.6	

Source: Statistics Canada; Labour Force Survey Division.

Not all services, however, are directly related to growth in the rest of the economy. Some are autonomous, having a dynamism of their own and a wealth-generating capacity not tied to the performance of the local economy. Head offices of national or multinational companies are of this type. Modern communications, the computer revolution and widening distribution of human skills now make it possible for industries to be directed and administered in areas far removed from their principal clientele. The insurance and financial institutions offer interesting examples. A rarity for the Region, one of Canada's fastest growing insurance companies successfully operates from a Halifax head office, while generating most of its business in Central and Western Canada. Some businesses require specialized types of services in order to operate, and the presence of such services may be enough to attract other businesses to locate in an area. Specialist consultant services may be exported far afield. Services which the Region provides to tourists from outside the Region and to foreign fishing fleets are also examples of autonomous service activity, as indeed are ongoing federal operations permanently located in the Region, as will be discussed in another part of this chapter. These autonomous services bring new money into the Region, and have a significant multiplier effect.

The Council would like to see more of such wealth-generating services rooted in the Region, giving rise to a need for other services in the same manner as do goods-producing industries. Regional initiatives and government policies can be designed to encourage their growth, and many of the policies recommended elsewhere in this report would have this effect. By contrast, service industries which depend on the circulation of such transfer payments as equalization grants and unemployment insurance depend on the generosity of other Canadians rather than on their needs and those of potential customers of the Region, and enterprise within the Region is thereby sapped of initiative and deluded about the realities of competition in the world outside.

The Economic Council of Canada in its 1977 Report "Living Together: A Study of Regional Disparities" has observed that the Region's productivity is substantially lower than the national norm. In the two cases reflective of productivity in service industries, computer technology and shopping centres, out of three innovations studied in depth to 1973, the Atlantic Region clearly trailed all others. There may well be examples in which output per worker in service industries of the Atlantic Region are on a par with, or even better than, the national average. Many service outlets (e.g., bank branches and fast-food stores), as noted earlier, operate by common methods country-wide. Nevertheless, the Atlantic Development Council has no grounds to dispute the general conclusion of the Economic Council of Canada, and regards it as supportive of the contention that the industrial structure of the Atlantic Region is basically weak and the apparent success in moving heavily into service industries highly misleading. Aside, however, from the need to have service industries of the Region made complementary to more secure underpinnings in the regional economy, and less of a distribution mechanism for national revenues, the Council recognizes that an efficiency gap exists that warrants the most serious attention in the Region. In addition to adopting new technology at a faster rate, care must be taken, in the Council's view, to improve attitudes among service industry workers, to keep prices of services to businesses and the general public competitive, and to cultivate regional sales of services outside. An inefficient service sector, however large in proportion to others, is unlikely to contribute the share expected of it in the general improvement of the regional economy.

PART II - TOURISM

Rising standards of living, more disposable income, improvement of highways and air travel, and the desire to escape from high density urban living helped to create a substantial growth industry in tourism in the Atlantic Region in the 1960's and early 1970's. The cultural and natural attractions of the Region were the focus of an increasing number of visitors with a wide range of backgrounds and interests. Fishing and hunting attract the sportsman from spring until late autumn. Expansive beaches and attractive camping and picnic parks offer summer pleasures for many. Historic sites, such as Fortress Louisbourg, are of general as well as professional interest. The rugged coastline and environmental serenity of much of the Region are attractions at all seasons for all age groups. The winter potential of the Region is not yet well developed in comparison with some areas closer to major metropolitan concentrations of North America, and is somewhat limited by the preferences of many to holiday in warm climates at competitive prices for air charter and packaged tour arrangements. Many Canadians with a lifelong desire to visit all provinces have yet to visit Atlantic Canada. Those expecting to cover the whole Region in one holiday may be pleasantly surprised to find a second or third visit necessary. Special delights in seafood and regional delicacies such as fiddleheads and bakeapples help to make the return visit more likely. A continuing source of visitors, particularly in the summer, are the expatriate Maritimers and Newfoundlanders who return repeatedly with their families to visit relatives and explore old haunts. Continued growth in the Region's tourist industry is possible, but because of higher costs, particularly for energy, and major "stay-at-home" campaigns in competing areas, it is likely to be slower and more difficult to sustain in future.

Table 36 shows travel expenditures and their percentages of gross domestic product by provinces of the Region in 1971 and 1976, and for Canada as a whole. Calculations based on these figures indicate that, while travel accounts for a larger share of the regional economy than for the nation as a whole, on a per capita basis Prince Edward Island derived twice the economic benefit from travel in 1976 as Canada as a whole, Nova Scotia was about par, and New Brunswick and Newfoundland were about 15% below the national average.

TABLE 36

Travel Expenditures (a) and Percentages of
Gross Domestic Product by Province
1971 and 1976

Province	Travel Expenditures (millions of dollars)		Travel Expenditures As Percentage of GDP	
	1971	1976	1971	1976
Newfoundland	78	166	6.7	6.9
Prince Edward Island	41	83	18.0	19.8
Nova Scotia	138	286	6.6	7.0
New Brunswick	95	194	6.0	5.8
Canada	4,446	9,230	5.4	5.4

Source: "Tourism - Economic Performance", Discussion Paper prepared by Department of Industry, Trade and Commerce for Federal-Provincial Conference of Ministers Responsible for Tourism in Canada, January-February, 1978.

(a) Domestic travel expenditures on trips of 25 miles or more plus estimated provincial distribution of expenditures by non-residents.

Although tourism and the travel industry have different connotations, they are taken together in this report as a major source of gross regional earnings. Since these earnings are reduced by the spending of residents of the Region while travelling outside, a strategy for increasing the value of tourism to the regional economy must be concerned with increasing returns per visitor and attracting more visitors, particularly in the off season, while encouraging residents to spend more of their travel and holiday budgets within the Region. Fortunately the number of potential visitors far exceeds the number of residents who travel outside, and efforts to attract visitors often help to persuade residents to find new vacation experiences nearer home. Travel for other personal and business purposes, also included in the term "tourism" as used in this report, does not necessarily respond to inducements for recreational travel, but may be considered reasonably in balance between those who come to the Region and those who go outside. While an obvious strategic concern is with influencing recreational travel in favour of the Region, many of the goods and services through which earnings are made from tourism are purchased by travellers of all kinds and warrant at least equal attention with the promotion and enhancement of regional recreational assets.

Rising Costs

The tourist is concerned with the quality and cost of service in relation to the need to travel or to the value of the recreational experience. The tourist industry is concerned with the quality and cost of service in relation to profitability and competition. The Department of Industry, Trade and Commerce reports that travel costs generally have increased more in Canada than in the United States (the main source of Atlantic Canada's foreign visitors) in the period 1974 to 1976.

The Council has noted a number of reports in the press, and from personal experiences, of the high cost of travel in the Atlantic Region in comparison with the competitive travel industry in Maine. The minimum wage in New Brunswick, for example, is \$2.80 per hour compared to \$2.30 in Maine, where employees receiving tips, moreover, are paid only half the minimum wage. In the Atlantic Region labour practice generally holds to the principle that an employee is entitled to a fair wage for a day's work, and should not have to depend on tips to compensate for inadequate pay. Without disputing this principle, the Council appreciates the problem expressed by some members of the industry in the Region that employees performing equally essential hotel services, but not in contact with tipping customers, are often at a considerable disadvantage in take-home pay unless higher wages are paid. In the period 1973 to 1976 average hourly earnings in Canadian hotels, restaurants and taverns increased by 53 percent compared to 23-26 percent in the United States.

A major cost disadvantage for the Region arises from generally higher taxes in Canada on items important to the travel industry. Total taxes on gasoline per imperial gallon in St. John's and Halifax in 1977, for example, were 42 and 36 cents, respectively, while they were approximately 16 cents for the same measure in Boston. A comparison of federal taxes on alcoholic beverages is shown in Table 37, which compares three taxes in Canada with the one U.S. tax. Unlike the practice in the Atlantic Region, the tourist industry in Maine receives preferential treatment for purchases of alcoholic beverages in bulk, while in two of the Atlantic Provinces the industry is required to pay more than the retail price to the private purchaser. In three of the provinces, Prince Edward Island excepted, the industry must charge the customer additional sales tax for individual drinks even if sold by the bottle, delivered to the hotel room.

A further cost disadvantage with Maine has been noted in the practice of telephone companies in the Region to supply telephone exchange equipment on the basis of a monthly rate, subject to escalation, whereas in Maine it may be purchased, and hence amortized at a fixed rate over the repayment period of a loan.

TABLE 37

Federal Taxation of Alcoholic Beverages
Canada and United States, 1977

	C A N A D A			U N I T E D S T A T E S
	Sales Tax	Excise Tax	Excise Duty	Excise Taxes
Spirits (per gallon)	12%	-	\$16.25	\$10.50
Table Wine (per gallon)				
7% or less alcohol	12%	\$0.275	-	\$ 0.17
No more than 14%	12%	\$0.55	-	\$ 0.17
Sparkling wine (per gallon)	12%	\$2.55	-	\$ 3.40
Beer (per gallon)	12%	-	\$ 0.42	\$ 0.29

Source: "Tourism - Economic Performance", Discussion Paper prepared by Department of Industry, Trade and Commerce for Federal-Provincial Conference of Ministers Responsible for Tourism in Canada, January-February, 1978.

Rising costs of energy have special significance for tourism in the Atlantic Region because of its distance from major population areas of the Continent, and changes in tourists' preferences may be expected in consequence. Renting a housekeeping unit may become preferable to towing a house-trailer for a long distance; travelling by car may give way appreciably to flying and renting a mobile camper; and bus tours or combinations of air and bus tours could increase in popularity. Such changes are perhaps less likely for tourists travelling to Nova Scotia and New Brunswick than to Newfoundland and Prince Edward Island, where ferry service adds to the cost of travelling by car. Bed-and-breakfast establishments might retain or attract a clientele for whom motel or hotel accommodation would be prohibitive. The Council feels that changing trends should be monitored closely so that necessary adjustments can be made by the tourist industry.

Approximately 50% of expenditure by non-resident tourists in the Region occurred in the third quarter of each year from 1971 to 1976, and it is in this quarter that the industry must obtain a large part (in some cases all) of its revenue for the year, particularly provision for amortization of capital costs. Escalating costs for capital outlay and labour, compounded by high levels of taxation, are presenting serious challenges to the tourist industry of the Region to maintain clientele at reasonable prices. Whether a tourist operation is geared to providing quality service which will attract an elite clientele, or to cost-cutting in building standards and hired help to retain the patronage of the economy-minded, the need for competent management and promotion is clearly evident. The Region appears to be at a considerable disadvantage in competing with Maine for non-resident tourists under present conditions. The large number who continue to visit the Region, nevertheless, confirm its attractiveness even in the face of rising costs. Newfoundland, for example, is reporting an increase of between five and six percent in visitors to August, 1978, over the comparable period for 1977. The high cost of travel may in itself help also to persuade increasing numbers of residents to vacation within the Region. Where winter and summer recreation can be co-located, as in the Corner Brook-Gros Morne National Park area, for example, year-round tourist operations may become viable through cultivation of residents' interests in winter activities, with ultimate potential for attracting winter visitors from outside.

While North American travellers may continue to be the Region's major source of revenue from tourism, other sources warrant attention, particularly Europeans. As European holiday sites become more crowded and polluted, the more affluent Germans and other noted European travellers may become more conscious of the possibilities of a quiet change of scene such as Atlantic Canada can offer, with increasing use of air charters and a trend to other reductions in air fares. An understanding of the tastes of potential new visitors, however, would be an essential ingredient of any serious promotional effort.

Government Assistance

All four Atlantic Provinces have development agreements with DREE providing substantial assistance for tourism. National Parks and National Historic Sites and Properties develop outstanding recreational and historical attractions, and the Department of Industry, Trade and Commerce also provides assistance for provincial governments, particularly in marketing. Programs to stimulate tourist travel are being implemented both nationally and regionally. The Council is pleased to note that ABC fares now apply within Canada and it expects governments to ensure that the Atlantic Region receives equitable treatment. The destination area concept being pursued in all four provinces with assistance from DREE should enhance the tourist attractions of the Region and induce tourists to stay longer and spend more. There is also assistance to the entrepreneur for new or improved facilities.

While these are all positive measures, the Council is concerned that escalating costs could make many private operations unprofitable and lead to pressures for further subsidy. In Scotland seasonal accommodation is seen as essential for the total good of the industry, and since housekeeping chalets are often unprofitable because of seasonal demand, they are subsidized by government as part of the mix of activity needed for year-round viability of rural areas. While not necessarily advocating this approach for the Atlantic Region, the Council cautions that policy development in tourism should

tread carefully between excessive stimulation (and its likely consequences of financial troubles and deterioration of service), on the one hand, and retention of seemingly contradictory policies and practices, on the other, particularly in taxation, which could inhibit natural growth of a still highly promising industry.

Regional Co-ordination

The Council compliments the four provinces for their co-operation in joint advertising for tourists, despite the fact that they are in some degree in competition for tourist dollars. Other areas for co-operation include collecting and documenting travel data, establishing reliable rating and reservations systems, and package-tour promotion. Some of the more fundamental problems in the way of healthy growth in tourism for the Region may be soluble only through joint action. Two such areas are suggested for early consideration, both aimed at removing uncertainty and improving efficiency and profitability in the tourist industry, and involving joint action between the four provinces and Canada.

The first is a review of all federal and provincial policies and practices directly affecting the tourist industry in the Region to identify and remove avoidable anomalies and to replace them, where possible, with measures that will have a positive rather than a negative impact on growth of the industry. Ferry operations, for example, have been widely criticized for indifferent service, poor food and poor terminal facilities. Possible anomalies in taxation and liquor pricing have been discussed earlier in this chapter.

The second is the creation of a common institute for specialist training of workers in the methodology of tourism, including management, marketing, and design and fabrication of equipment and facilities. Such an institute, in the Council's view, should be affiliated with a university, where training in the professional aspects of tourism should also be developed. Such arrangements should also be expected to foster local and in-service training for other workers. Seasonal workers may need training prior to peak-flow periods, and in this regard Holland College in Prince Edward Island has had a noteworthy record worthy of study by the other provinces.

Regardless of the degree to which direct assistance to the industry may be judged worthwhile, the Council considers capital and labour-efficient establishments are essential to long-term, healthy growth in tourism for the Region, and that first priority must be given to maintaining consumer confidence and interest in the Region, already evident in growing numbers of visitors despite rising costs.

Recommendations

1. That the four Atlantic Provinces and Canada collaborate in an analysis of the impact of government policies, programs and practices, including taxation, utility charges and minimum wages, on tourism in the Region, and design consistent and complementary policies to stimulate investment by the private sector.
2. That a university-affiliated institute, jointly supported by the four provinces, and by Canada on regional development grounds, be created to develop a program of studies, research and training in all aspects of economics, management, promotion and relevant technology for the tourist industry of the Atlantic Region, and that training to the professional level be developed in one of the universities of the Region.
3. That the tourist industry associations and governments of the four provinces collaborate in designing and refining programs and practices of common interest, where costs and impact would be mutually beneficial, particularly in such fields as reservations systems, reliable and unbiased rating, marketing and promotion, design of accommodation, and food preparation featuring seafood and local cuisine.

PART III - FEDERAL HOUSEKEEPING OPERATIONS
AS AN INSTRUMENT FOR REGIONAL DEVELOPMENT.

One of the principal themes of this report is that the management of national economic activity should be so conducted as to ensure a reasonable distribution of the elements of that activity to all provinces. Indeed, this is suggested as one of the principal purposes of the Canadian federation and a primary function of the federal government. Of the many elements of economic activity in Canada which may be considered national in scope, federal government operations themselves are most readily distributable, since their disposition is intrinsically a matter of federal government discretion.

The movement of federal operations is not, nor should be, simply a matter of determining which potential location most requires regional economic development. It makes no more sense for Canada's principal naval base, for example, to be located in Saskatchewan, than for the Canadian Wheat Board to be headquartered in Prince Edward Island, despite the agricultural attainments of Canada's smallest province. Similarly, the direction, coordination and related policy-making activities of the Government of Canada would be well nigh impossible if spread throughout the country rather than concentrated in the national capital. Numerous other federal operations, however, some on the scale of major industries, can be carried out anywhere in Canada where reasonably suitable conditions exist, or can be created at reasonable cost. The laboratory complex for national research activities, for example, intrinsically belongs no more to Ottawa than, say, to Fredericton, except that it was established and grew in the former location rather than in the latter. Creation of such a complex in Ontario is one piece in a large puzzle contributing to regional economic imbalance in Canada.

The Council is convinced that through active and directional use of its "housekeeping expenditures" the federal government has the capability for significant strengthening of the economy of the Atlantic Region. The types of measures envisaged include selective relocation of federal government operations to the Region; amendment of federal purchasing

policies including those of Crown corporations to ensure increased regional procurement and the strengthening of the regional industrial structure; consolidation of regional purchasing, including federal, provincial and municipal, where practicable; and strengthening in the Atlantic Region of the national capability to exercise sovereignty over the Continental Shelf and northern frontiers.

Locating and Relocating Federal Operations

In Canada the Federal Public Service is relatively highly concentrated in the National Capital Region, with close to 27% of public servants employed there. This degree of concentration compares with only 12% in the Washington, D.C., area of the United States. Indeed, apart from its role as the policy centre of government, there is little that is unique about the National Capital Region which would today warrant the establishment in the area of many of the present units.

In August of 1974, the Federal Cabinet requested Treasury Board to examine in detail both physical relocation of government units and decentralization of authority. In May of 1975, the President of the Treasury Board was given the responsibility of developing a program of decentralization and identifying units for relocation. He created a task force to determine both the units suitable for relocation and to identify appropriate receiving communities. Between 1971 and 1975 the federal government had approved the relocation of only some 660 jobs from the National Capital Region to other regions of Canada, whereas in the 1975-77 period it approved the relocation of approximately 4,600 permanent and 5,600 temporary jobs, including some 1,630 permanent and 650 temporary jobs to the Atlantic Region. Details of the approved relocations are given in Table 38. Implementation of these decisions will extend into the early 1980's.

TABLE 38

Federal Government Relocation Program

1975 to Present

Department or Agency	Relocated Unit	Receiving Community	Total jobs to be Relocated from NCR	Annual Payroll (\$millions)
Veterans Affairs	Administrative Head Office	Charlottetown, P.E.I.	602	9.0
Unemployment Insurance Commission	Annuities and Central Index	Bathurst, N.B.	390	3.1
Supply & Services	Superannuation	Moncton area, N.B.	400	4.5
External Affairs	Mail Services of Passport Office	Sydney, N.S.	82 (56 temp)	1.4
Post Office	Philatelic Service	Antigonish, N.S.	50 (20 temp)	.650
Industry, Trade & Commerce	Tourism Publications Distribution Centre	Yarmouth, N.S.	55	0.725
Revenue Canada - Taxation	Taxation Data	St. John's, Nfld.	50 (575 temp)	2.0
SUB-TOTAL (ATLANTIC REGION)			1629 (651 temp)	21.375

Department or Agency	Relocated Unit	Receiving Community	Total jobs to be Relocated from NCR	Annual Payroll (\$millions)
Revenue Canada - Taxation	Taxation Data Centre	Winnipeg, Man.	90 (1100 temp)	3.9
Revenue Canada - Taxation	Taxation Data Centre	Jonquière, Que.	55 (700 temp)	2.4
Revenue Canada - Taxation	Taxation Data Centre	Shawinigan, Que.	75 (975 temp)	3.4
Revenue Canada - Taxation	Taxation Data Centre	Surrey, B.C.	60 (775 temp)	2.7
Supply & Services	Cheque Redemption Centre	Matane, Que.	257	2.9
Revenue Canada - Taxation	Centre for Career Development	Rigaud, Que.	430	5.4
Revenue Canada - Customs & Excise	Training School	Rigaud, Que.	60	1.2
Energy, Mines & Resources	Surveys & Mapping Branch	Sherbrooke, Que.	750	13.5
Communications	Telecommunication Regulatory Service	Quebec City, Que.	251	4.5
Health & Welfare Canada	Bureau of Dangerous Drugs	North Bay, Ont.	115	1.0
Statistics Canada	Ottawa Regional Office	North Bay, Ont.	40	0.5

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Department or Agency	Relocated Unit	Receiving Community	Total jobs to be Relocated from NCR	Annual Payroll (\$millions)
Revenue Canada - Taxation	Taxation Data Centre	Sudbury, Ont.	110 (1400 temp)	4.9
Health & Welfare Canada	Regional Medical Services Office	Thunder Bay, Ont.	56	0.75
Energy, Mines & Resources	Precambrian Sub-division of Geological Survey	Thunder Bay, Ont.	109	3.0
Environment Canada	Hydrology Research Institute	Saskatoon, Sask.	115	2.5
Farm Credit Corporation	Headquarters	Camrose, Alberta	136	2.7
Health & Welfare Canada	Laboratory Centre for Disease Control	Kamloops, B.C.	51	0.8
Health & Welfare Canada	Income Security Program	Various Communities	200	2.6
TOTAL			4589 (5601 temp)	80.025

It is evident that moving federal jobs to areas of slow economic growth in Canada has been accepted as an instrument of national economic policy. In the Council's view this is a welcome advance over previous practice, under which similar actions have been taken sparingly on an individual basis from time to time as concessions to ad hoc situations. The Council notes, however, that the operations now designated under the new policy for the Atlantic Region are almost invariably mass clerical operations, useful for economic growth but not generally the nucleus from which economic development is generated.

The Council appreciates that it is difficult to uproot existing operations and transplant them in another part of the country. It is not surprised, therefore, that operations chosen for relocation will be those to which least objection will be made. Establishment of altogether new operations presents no such difficulty, although some locations will be less ideal than others and the competition for new operations is likely to be keen. If regional economic development is to be one of the principal criteria for choice of location for operations that (a) do not have to be in the National Capital, and (b) are not location-specific, then the operations to be chosen would most likely be those to which the most strenuous objections are made in dislodging, and those new ones for which competition is keenest. In the Council's view it hurts more for a region not to have such generators of economic development than to lose them after they have contributed to economic development and are no longer needed to sustain it. Nevertheless, the making of locational decisions for use of federal operations in economic development will never be easy, and the Council suggests that these decisions can only be made adequately and rationally in Canada on the recommendation of an organization dedicated to the management of regional economic affairs generally, such as the department proposed earlier in this report to be headed at the Deputy Prime Minister level.

While many operations of the Government of Canada may be located anywhere in the country at a price, others are regionally specific, if not specific to a particular community. Armed forces bases located somewhere suitable in a region for purposes of a defence strategy are good examples. In the

Council's view, as noted earlier, the balance of the Department of Fisheries concerned specifically with the East Coast should be located in the Atlantic Region. Ideally the combination of regionally specific and regionally non-specific federal operations to be located in a region should also be chosen with great care, if maximum contribution to economic development is to be attained. The Council suggests that to the extent possible the combination be chosen to serve and amplify the national economic roles to be carried out in the Region.

Federal Purchasing

The Government of Canada is by far the largest single purchaser in the country. Its 1977-78 estimates (Standard Objects 2-9) for goods and services, including capital formation, was in the order of \$5.5 billion. In the Council's view, a pool of funding of this magnitude offers much scope for the enhancement of regional industry and expertise.

Because of the way in which the national economy has evolved, and the heavy concentration of federal authority in Ottawa over many years, the process of supply and service procurement for federal activities has been equally centralized in Central Canada. Responding to criticism of the evident advantage former practices gave to Central Canadian suppliers, the Government of Canada announced in 1972 a revision in the procurement policies of its Department of Supply and Services (DSS). It would seek to maximize the purchasing of supplies to be used in a region from the region itself; it would purchase F.O.B. plant rather than destination, where transportation accounted for no more than 10% of product cost; and it would favour a "buy" rather than "make" policy wherever possible, so that goods and services would be contracted rather than be provided internally by government agencies.

The Department of Supply and Services has made considerable effort to increase federal purchasing of commercial supplies in the Atlantic Region. A regional office has been established in Halifax; seminars are held for suppliers; and liaison has been established with provincial governments. The effective procurement policy, however, seems to be as follows

- (a) in general, the practice of procurement should be directed toward obtaining the necessary items at lowest cost through competitive tendering;
- (b) while items should be purchased in region of use as far as possible, and a small cost premium may be allowed, an item is purchased locally so long as there are three competitors for its supply; and
- (c) socio-economic objectives are clearly secondary to the principle of least cost.

The implications of this policy for the Atlantic Region are not particularly favourable, because of the market forces which have led to the Region's general lack of competitiveness. The policy appears to favour short-term suppliers of low cost items rather than the long-term development of competitive producers for high-volume production. The "three supplier" rule is appreciated but discriminates against areas where only limited supply of certain products is available. Most significant, perhaps, is the fact that, of the value of supplies required and consumed by DSS head office customers in the Region for use in the Region, approximately 70% is imported from outside the Region (e.g., motor vehicles). Table 39, when taken in the context of growth of federal activity, indicates that the Atlantic Region's share of DSS contracts placed in Canada actually shrank (except for one year) between 1971-72 and 1976-77. In fact, without the relatively large share of Nova Scotia, presumably related to the two major defence establishments in that Province, the Atlantic Region's share of federal procurement would be very small indeed. While it appears that DSS has been able to arrange much servicing and commodity requirements within the Region for use in the Region, locally manufactured products are rarely purchased either for regional or national use.

The Council appreciates that in large measure the record of federal procurement in the Region is a reflection of weakness in the Region's industrial structure rather than of discrimination against regional suppliers or manufacturers. Since

TABLE 39

Share of the Atlantic Provinces
of DSS Contracts Placed in Canada,
FY 1971/72 - FY 1976/77.

	Canada \$M	ATLANTIC PROVINCES		NFLD.		P.E.I.		N.S.		N.B.	
		Value \$M	% Of Canada	Value \$M	% Of Canada	Value \$M	% Of Canada	Value \$M	% Of Canada	Value \$M	% Of Canada
1976/77	1,802	130.92	7.3	13.55	0.8	2.46	0.1	98.62	5.5	16.30	0.9
1975/76	1,590	107.89	6.8	9.68	0.6	2.49	0.2	79.12	5.0	16.60	1.0
1974/75	1,477	122.51	8.3	12.89	0.9	0.50	(a)	87.74	5.9	21.38	1.5
1973/74	1,419	91.54	6.5	12.77	0.9	8.40	0.6	51.12	3.6	19.25	1.4
1972/73	1,089	76.37	7.0	7.05	0.6	2.03	0.2	53.19	4.9	14.10	1.3
1971/72	986	73.88	7.5	6.10	0.6	0.32	(a)	49.25	5.0	18.22	1.9

(a) So small as to be not recorded

Source: Department of Supply and Services

the most obvious weakness is in the Region's manufacturing capability, strengthening of which is central to the Council's proposed economic development strategy, the Council suggests that current procurement policy be further reviewed to determine whether some items of federal procurement needed in the Region might economically be manufactured in the Region, given the availability of DREE industrial incentives and the requirements of provincial governments. Examples for consideration include metal fabrication for such purposes as filing cabinets and shelving; mail boxes; and wooden and metal office furniture. In 1973, the last period for which information was available, there was no federal purchasing in the Region of these items. If existing metal-working and wood-working plants in the Region were enabled to meet regional supplies at reasonable cost in a few years, a manufacturing competitiveness for national supply in some items might evolve, particularly if the transportation cost from plant to DSS warehouse were averaged for the nation. It is unlikely, however that a centralized purchasing agency, concerned primarily with efficiency, rather than balanced distribution of national economic activity could be expected to be an effective instrument of regional economic development unless given explicit direction.

The Council can attest from its own modest supply requirements that opportunities for local purchasing have not been exhausted. A bilingual sign was requisitioned for a glass pane on the hallway door identifying entry to the Council's offices in St. John's, Newfoundland, to replace lettering on the glass broken by a burglar on October 7, 1977. After much hastening by telephone and an exchange of correspondence, a plastic sign fifty-two inches long and six inches wide was received on July 6, 1978, which fitted neither the door window nor the modules of the corridor wall adjacent. The plastic sign came from Ottawa, the requisition having been passed from the Department of Public Works in St. John's to at least two government organizations in Ottawa via Saint John, New Brunswick. Commercial sign painters in St. John's could have painted a suitable sign to an appropriate specification in an afternoon at a fraction of the cost.

As is apparent, DSS is by no means the only agency still involved in federal procurement, although much of the commercial supply and contracting for services for federal departments has

been assigned to it since its formation on recommendation of the Glassco Commission of the early sixties. Other agencies include the Department of Public Works for public service accommodation and some related requirements, the Canadian International Development Agency, and numerous Crown Corporations whose purchasing budgets are not included in the total for the Government of Canada given earlier. Information on purchasing by Crown Corporations is not so readily available as for federal departments, but it is suspected that the Atlantic Region benefits less proportionately from the purchasing of these agencies than from departmental spending. Normally shipbuilding contracts for the Departments of Transport and National Defence are placed in Canada, including sometimes the Atlantic Region, but CN Marine has evidently preferred chartering foreign vessels for use as ferries in the Region in recent years, despite the fact that its deficits on ferry operations are borne by the Department of Transport.

As noted earlier, the Council advocates a regional balancing of national economic activity in Canada and suggests that the Government of Canada set a good example to the private sector.

Recommendations

1. That additional federal operations be identified for relocation to the Atlantic Region to generate both direct employment and the development of "centres of excellence" in certain fields of technology. Candidates for such relocation should include fisheries management and research, marine research including Arctic shipping, metallurgical testing and research, communications research and alternative energy research and the associated technologies. The decision-making process should be opened up to provincial consultation with the proposed federal department of regional economic affairs under the Deputy Prime Minister.

2. That revised federal procurement policies be prepared which allow for the introduction and significant weighting of socio-economic considerations into the competitive tendering system. Collaboration is suggested between DREE, DSS, the Council of Maritime Premiers and provincial agencies to identify products which might be purchased in the Atlantic Region if there were sufficient demand to warrant the development of additional production capacity. Joint federal-provincial purchasing of identified products is recommended to guarantee markets for a limited time to permit the industry to become independently competitive.
3. That federal government tendering practices and procedures be examined with the object of recommending revisions responsive to the smaller scale and more localized production and consumption characteristics of the Atlantic Region.
4. That federal Crown Corporations and agencies such as the CBC, CIDA and Air Canada be formally requested to publish their purchasing policies and the regional distribution of their expenditures and to identify means for increasing regional purchasing consistent with their mandates and the regional development policies of the Government of Canada.
5. That, since Newfoundland is the only province without a major military base, favourable consideration be given to the suggestion of the Minister of National Defence in the House of Commons on June 2, 1978, that an operational unit of the air defence complex might be formed in Newfoundland with aircraft shortly to be placed on order, to help in the exercise of sovereignty over Canada's frontier areas.

CHAPTER 8

SUPPORTING SECTORS - TRANSPORTATION,
ENERGY, CONSTRUCTION

PART I - TRANSPORTATION

The sensitivity of regional industry and well-being to national transportation policy is well illustrated by the virtual collapse of Maritime manufacturing in the wake of absorption of the Intercolonial Railway into the Canadian National Railways system in 1918 combined with the general post-war recession. As Ernest R. Forbes has shown (op. cit.), with low rates set in the Region to accommodate industrial growth, the ICR had had a net operating surplus of \$320,334 between 1897 and 1917, compared to successive losses with drastically increased freight rates by the CNR's Atlantic operation of \$2.3 million in 1920, \$3.1 million in 1921, \$3.7 million in 1922, \$5.0 million in 1923, \$3.5 million in 1924 and \$3.0 million in 1925. The burden on the Canadian taxpayer of these direct losses has been multiplied many times by subsequent freight subsidies and the necessity in more recent years of massive transfer payments to what has become Canada's archetypal have-not region, whose primary inducement to join Confederation in 1867 was thus withdrawn in 1918 despite all protests.

The Council in reviewing current transportation policy and systems is convinced that the Region remains critically sensitive to the use and misuse of transportation as an instrument of economic development. Among its worst fears for the Region is that future transportation policy will be set in isolation from a development strategy, on national considerations perceived in indifference to past wrongs, or even in accommodating once-held development aspirations for the Region that are no longer tenable. Once the general principles for a development strategy for the Region are accepted, the most urgent immediate task, in the Council's view, would be to tailor a set of transportation policies and programs to accommodate the strategy with full regional participation.

User Pay

The national Transportation Act (1967) requires that, where facilities are provided at public expense, users will pay the full cost involved to the greatest extent practicable. The revulsion to this move, as felt in the Atlantic Region and expressed by its political leaders, has had some effect. In 1977 an amendment to the Act was proposed, but not passed, giving recognition that other considerations, particularly development objectives, should take priority over the requirement that a transportation system be self-sufficient. The Minister of Transport, in recent public statements, has acknowledged that development objectives should take priority over user pay objectives.

Adoption of user pay, in the Council's view, would be contrary to the principles on which much of Canada's regional development has been based. To apply it universally now, with the Atlantic Region still far behind the rest of Canada in its development, would be to add salt to the wounds of 1918 and frustrate future development efforts. Prince Edward Island and Newfoundland, moreover, still have constitutional guarantees in transportation.

Examples in which the user pay concept has been set aside for the betterment of other regions of Canada include the Crows Nest Pass rates for prairie grain established in 1897 and fixed in 1923; the low tolls on the St. Lawrence Seaway and the recent write-off of the Seaway's \$850 million debt and accumulated deficits; and the frequent authorizations for the railways to lower and hold down their freight rates along the St. Lawrence - Great Lakes corridor to meet competition from other transportation modes during periods when their general freight rates elsewhere in Canada, including the Atlantic Region, were being raised. Even in the United States, where one might expect user pay to be universally applied, all waterway improvements such as on the Ohio and the Mississippi are provided at public expense and waterway users are charged no tolls except on the St. Lawrence Seaway.

When transportation policy is used to stimulate economic development, excess capacity is frequently built into the transportation network ahead of demand, allowing early users the benefits of large scale economies. Prematurely raising user charges to the level of making the transportation network self-financing prevents seeding of the areas proposed for development and defeats the purpose of installing the transportation network. Strict adherence to a user pay policy might indefinitely postpone area developments in the Atlantic Region. The same developments in an earlier era, in other parts of Canada, might have been considered in the national interest. Resource development projects in Labrador, for example, would be particularly vulnerable.

The Council recognizes that responsibility for national transportation policy in Canada is a difficult one. Given the history of its exercise in the Atlantic Region, the Council is convinced that making regional transportation systems conform to a national system is more damaging than designing a national system to accommodate regional system necessities. It would be equally damaging, in the Council's view, to have major economic and political issues of the Region settled on transportation grounds alone. For that reason it favours having the formulation of national transportation policy for regional needs, and hence the national policies themselves, brought under the wider responsibility proposed in an earlier chapter for the Deputy Prime Minister's Department.

Notwithstanding its major disappointments, the Atlantic Region has shared in numerous benefits of past federal transportation policy through such measures as the payment of freight subsidies, improved ferry services, port developments, the establishment of common carriers, extensions of airline services, construction of the Trans Canada Highway, and financial assistance in other road construction. Probably the most visible aspect of federal transportation policy with respect to the Region has been the payment of various kinds of subsidies to regional carriers including those for rail and truck freight movements, ferry operations, developmental air transport, certain domestic shipping operations, transport of feed grains and for coal haulage. Attuned as it now is to these benefits, the modest pace of economic activity which the Region has been able to achieve would be seriously disrupted if user pay were to be introduced as the governing principle for public trans-

portation systems in the Region. The Council strongly recommends that the Minister's acknowledgements be reflected in law to ensure, in view of the critical need for active development policies in the Atlantic Region, that development considerations prevail in transportation policy.

Freight Subsidies

The enactment in 1927 of the Maritime Freight Rates Act (MFRA), applicable to the "Select Territory" east of Levis/Diamond Junction, Quebec, was a somewhat belated federal response to the Maritime Rights movement of the 1920's protesting the loss of control over Intercolonial Railway rates and the erosion of much of the Maritimes' manufacturing base. Designed to facilitate access for goods shipped from the Maritimes to the whole Canadian market, the MFRA initially provided for a 20% blanket rail freight subsidy on intra-regional movements and pro rata on distance for westbound movements. The level of subsidy for westbound movements was raised to 30% in 1957 to help offset the growing disadvantage for Atlantic shippers posed by rail rates kept competitively low in the Central Canada corridor. Under the Atlantic Region Freight Assistance Act (ARFAA) the subsidy was extended to westbound truck movements in 1969 and to intra-regional truck movements in 1970.

For some years it has been conceded (by the Council, for example, in its 1971 Strategy) that blanket freight subsidies are less effective than selective measures as instruments of regional development. The intra-regional blanket subsidy was reduced from 20% to 15% in two stages between 1971 and 1974. Following consultation with the provinces, the Minister of Transport has replaced the intra-regional blanket subsidy by a 15% subsidy on an approved list of regionally manufactured or produced goods, including pulp, paper, lumber and potatoes, effective September 1, 1978. The blanket subsidy on non-eligible commodities, including gypsum and petroleum products, will drop concurrently to 7½% for a one-year period and is then eliminated. The Minister also extended the new program to both the marine and air modes, effective September 1, 1978. A measure of selectivity was introduced to the westbound subsidy program in 1974 when an additional 20% "bonus" for selected products, including potatoes, frozen foods and canned foods, was added to the 30% blanket subsidy.

Since more selective freight subsidies are now being implemented, it is appropriate to consider whether further measures are warranted. An examination of the westbound subsidy as recommended by Council in 1971 appears to be of first priority, to determine if the blanket plus selective bonus arrangement should be modified. New subsidies to fill needs not covered by the existing programs might also be considered, and indeed, as the economy of the Region changes its mix of production, it is fundamental that it be kept under continuing review.

The "Select Territory", to which the MFRA and the ARFAA apply, has never included Labrador. This exclusion did not have as much significance earlier, since the only railroad serves just the iron ore mining operations in Western Labrador, there is no road network apart from a few short local roads, and all freight for other than the mining towns is brought in by ship and by plane. The announced September 1, 1978, extension of the intra-regional freight subsidy to the marine and air modes suggests that the exclusion of Labrador may now be a serious oversight. Indeed, the increasing support for a trans-Labrador highway, a portion of which is now the subject of negotiation between Newfoundland and D.R.E.E., raises the prospect of truck freight movements in future.

Now that intra-regional marine and air freight movements will receive equal subsidy treatment to those by rail and truck, a similar measure for westbound freight movements by marine and air modes should be considered for improving external marketing opportunities for regional products. The cultivation of larger markets for fresh fish, for example, by air shipment, might warrant special attention.

Ferry Services

The principal ferry services in the Atlantic Region have been provided by the federal government but operated on their behalf by Canadian National Railways. Large operating subsidies, now in the order of \$100 million annually, furnished the carrier with some 85% of operating costs, with customer charges yielding the balance. Capital costs and interest charges were fully absorbed by the Government of Canada.

Now the Government of Canada has decided to put the operation on a different footing and C.N. Marine has been established as a separate entity to operate the ferries under contract to Transport Canada. All ships and shore facilities together with a \$125 million fund for ship replacement have been turned over to C.N. Marine, which will be paid a fixed contract price to operate each service. There has been no specific indication that users will be expected to shoulder a higher proportion of the operating cost but many in the Region are concerned that this may be implicit in the new arrangement. Any attempts to have the users shoulder a larger portion of the cost, or to reduce costs by lowering quality of a service that has already been frequently criticized, should be scrutinized carefully for consistency with constitutional commitments to Prince Edward Island and Newfoundland in particular, and for economic development implications for the Region in general.

Rail Services

It has long been contended that the railways have not been serving Atlantic Canada adequately. Two specific examples that have been cited to the Council are an alleged shortage of refrigerated cars to carry Prince Edward Island and New Brunswick potatoes to markets in the Canadian heartland and a rate structure for the transport of raw wood products in New Brunswick that unfairly places the Province at a disadvantage with competing wood-producing areas.

In 1977 Transport Canada, in conjunction with provincial and industry representatives, carried out a study (not yet released) of the two provinces' potato distribution system. It is believed the need for the acquisition of a substantial number of new refrigerated cars to replace rented U.S. cars was substantiated.

On May 31, 1977, witnesses appearing before the House of Commons Standing Committee on Transport and Communications gave evidence of high rail freight rates for the transport of pulpwood and wood chips in New Brunswick. Rates

given were from 20% to 60% higher than those charged by the same carrier in British Columbia. Comparison with B.C. Railways shows a wider differential. The basic problem is that the modern specialized rail cars in B.C. have nearly double the capacity of the made-over box cars used in New Brunswick. It was suggested that one way to secure competitive rail rates was through the provision of modern specialized cars for forest products. In the fall of 1977 the New Brunswick Forest Products Association completed a study which determined the need for a fleet of special forest products railcars. In March, 1978, a brief was submitted to the Government of New Brunswick seeking support for the proposal. The Council considers such proposals to be appropriate subject matter for consideration in a future DREE sub-agreement.

North-South Trade Links

North-south trade between New England and the Atlantic Region was strong before Confederation and indeed was perhaps more natural to the Region than the east-west trade pattern with which Atlantic Canada has since been endeavouring to cope. The Prime Minister in a December, 1970, speech in Saint John, said that by the 1980's the United States was expected to become a net importer of manufactured goods and that this presented an opportunity that, if pursued, could lead to new business for the Atlantic Region. In November, 1977, the Minister of Industry, Trade and Commerce spoke in Halifax of the desirability of rebuilding the north-south trade pattern. The Governor of Maine has likewise expressed support for the concept.

The recent establishment of the Yarmouth to Portland commercial ferry link is an important element now in place in fostering Atlantic Canada - New England trade. There is also a need to upgrade the land link from Calais to Bangor in Maine. If this were done, it would add a high-quality road connection via Saint John and Saint Stephen from the Trans Canada Highway at Moncton to the U.S. Interstate system at Bangor. The Council recommends that this subject be placed on the agenda for Canada-U.S. discussions without delay to explore mutual benefits and to highlight the importance felt in the Atlantic Region of expanding trading ties with and via New England.

Quality of Transportation

Some significant improvements in the quality of regional transportation services have occurred since the publication of the Council's 1971 Strategy, notably: placing the trucking industry on an equal footing with rail with respect to freight subsidies; the improvements in air services for most major centers; the adoption of a joint fare structure by Air Canada and Eastern Provincial Airways; the extension of intra-regional freight subsidies to marine and air carriers; the growth of container operations at Halifax and Saint John; and the establishment of a weekly container shipping service between Halifax and St. John's.

A number of further improvements in the regional transportation system are now in their early stages. A major new highway strengthening program, being cost-shared with the Provinces, includes provisions for the adoption of uniform weight regulations and vehicle configurations in the four provinces, thus removing a significant impediment to intra-regional transportation efficiency and overall economic strength. Qualitative upgrading in passenger travel is being addressed by a program designed to improve the network of inter-city bus services, to provide improvements to regional and local airports, and to improve viable rail passenger services.

Monitoring of the quality of transportation services is a continuing requirement both by the transportation authorities themselves and on behalf of the clientele being served. Quality of ferry services, for example, to and from Prince Edward Island and Newfoundland has a direct bearing on development of the tourist industries of these two provinces. Slippages in freight delivery times can cause havoc to a customer's business operations. Since quality deterioration may occur imperceptibly to management, and with significant costs to both management and clientele in the long run, the Council considers it in the Region's interest for provincial governments, business associations and consumer groups to conduct regular testing of quality standards expected of major transportation systems and engage in continuing constructive dialogue with the managements concerned.

Transportation in Newfoundland

Release of Volume I of the Report of the Royal Commission on Newfoundland Transportation occurred during the final stage of writing this report, and the Council has not yet had an opportunity of reviewing the Commission's recommendations. Two of the members of the Council were also members of the Royal Commission.

Arctic Shipping

Canada, a country with the second longest coastline, most of which is icebound for at least part of the year, has not developed a significant commercial capability for seagoing transport and shipping in ice. As national development priorities change, awareness of the extent and significance of Canadian frontier resources will grow undoubtedly, and has already begun to focus on the need to develop an Arctic shipping capacity both to support exploration and development and to transport products to market.

The challenge presented by these operations provides the opportunity for Canada to become a world leader in the design, construction, operation and management of the shipping systems required. While it may be cheaper to build these very large ice-breaking ships abroad, the level of activity inherent in a commitment to build them in Canada in a period of high unemployment warrants the most serious consideration. Establishment of such a technological base would have application to other processes and developments in the north. Since it would take much time to establish a Canadian capability to design, construct, operate and manage an Arctic shipping system, it is recommended that the process be started by establishing in the Region a school to train naval architects and engineers in the related skills and to step up research and technological enquiry into the requirements of ice-breaking vessels.

Favourable informed opinion is growing in support of the concept of transporting liquid natural gas from the Arctic Islands by the marine mode rather than by a 2,300-mile, large diameter pipeline, for which sufficient threshold reserves have not yet been proven. When rising energy costs make it economical to do so, the gas would be liquified at a barge-mounted conversion plant and then shipped by ice-strengthened LNG tankers to an east coast port for distribution and regasification. Such a project would appear to have economic advantages over the competing pipeline proposal, since it is less capital intensive, lends itself to appropriate pacing, provides most construction jobs in existing centres, and permits flexibility in operation. Design and construction of a prototype LNG tanker for Arctic use could be an effective catalyst for development of the regional economy, and in the Council's view warrants strong regional and national support.

Marine Service Systems

The scheduling of vessel traffic movements and the provision of accurate information on position, weather, ice conditions, navigational dangers and other vessel movements is vitally important to any sea-going operation. These services are generally not available in the north, nor have the implications for search and rescue and environmental impact been fully explored. The anticipated growth in northern vessel traffic related to territorial surveillance, shipping, fishing and offshore petroleum activities requires that high priority be given now to the planning and conceptual design and pilot projects for the vessel management and other information systems that will be needed. The information system components to be developed include the observing sensors, the telemetry and communications equipment and the data processing capability. Design and development of at least some of these components in the Atlantic Region and testing them under winter ice conditions would help establish a role for the Region as a technological and supply base for these northern activities.

Access to Labrador Resources

Despite the massive scale of the Churchill Falls project and the iron ore mining activities near the Quebec border, resource development in Labrador is considered in professional circles to be still in its infancy. The Council has been advised that Labrador resources will require in time a year-round port development, a trans-Labrador road and other access roads, and possibly a railroad linking "Port Labrador" with Montreal. The possibilities for Arctic shipping and for recovery of natural gas in the Labrador Sea may combine to warrant concurrent and co-ordinated planning for these developments during the eighties. The Government of Canada document "Transportation Policy: A Framework for Transport in Canada, Summary Report" of June, 1975, acknowledged the need for government commitment to development of ice-breaking ships for Arctic resource transportation and the need for access to resources in Labrador and northern Quebec.

Studies on the scale required to assess the potential for large-scale developments in Labrador and the Arctic have been beyond the scope of the current strategy review. The Council urges that they be undertaken with a view to the current economic state of the Region and that developments be carefully planned in the best interests of the local people and of the provinces most directly concerned.

Recommendations

1. That economic development considerations prevail over user pay considerations in public transportation systems, particularly for the Atlantic Region, and that the National Transportation Act (1967) be so amended.
2. That savings resulting from the September 1, 1978, changes in the intra-regional freight subsidy program be used together with additional federal funding, if necessary, to establish special transportation assistance programs. Two such programs recommended for consideration are:

- (a) Provision of transportation subsidies for selected external inputs to regional manufacturing or processing industries. The level of subsidy should be sufficient to offset the amount by which the inbound transportation costs, in relation to production for external sale, exceed those faced by bench-mark competitors outside the Region. (For example, Hawker-Siddeley Canada Limited - Trenton Works, in a 1972 submission to Transport Canada, reported that their average inbound freight disadvantages per rail car manufactured were \$202 and \$462 in relation to competitors in Sorel, Quebec, and Hamilton, Ontario, respectively.)
 - (b) Provision of a time-limited special transportation subsidy to newly establishing industry, where such industry did not previously exist in the Region, as a means of achieving improvement in the regional economic structure. An initial subsidy of, say, 20% phased out over six years is proposed.
- 3. That a study be done of the effectiveness of the 20% "bonus" westbound freight subsidy, in achieving price competitiveness for the selected commodities, as a pilot for a much broader study of the efficacy of replacing the basic 30% westbound blanket subsidy by a selective program at the appropriate subsidy level to ensure price competitiveness.
 - 4. That the "Select Territory" to which the Maritime Freight Rates Act and the Atlantic Region Freight Assistance Act apply be redefined to include Labrador, in view of the September 1, 1978, extension of freight subsidies to the marine and air modes and the greater dependency of Labrador on these modes, in relative terms, than any other part of the Region. It is further recommended that the subsidy on westbound freight movements from the Region be extended to these modes.

5. That a detailed examination is required of the adequacy and competitiveness of the rail transport system for getting resource output to mill or market, in particular raw wood products and potatoes. If completed investigations determine the need for new specialized rolling stock, it should be provided through public investment, if necessary, so that freight rates charged do not harm the competitive position of such industries.
6. That appropriate Canada-U.S. discussions be initiated seeking the upgrading of the Calais to Bangor Highway (Route 9) in the State of Maine, considered important to the fuller development of north-south trade potential between the Atlantic Region and New England.
7. That the Atlantic Provinces jointly approach the Government of Canada seeking support for development of an Arctic LNG shipping system and establishment of a joint government-industry task force to recommend how the system should be organized, managed and paced to maximize benefits to the Atlantic Region.
8. That high priority be accorded the planning and conceptual design of the marine service systems that will be required in support of frontier shipping activities and that early development of the various components be undertaken in the Region to ensure an operational capability as needed.
9. That the governments of Newfoundland and Canada collaborate in carrying out in-depth studies of future transportation needs for resource development in Labrador, particularly rail, seaport and access road systems.

PART II - ENERGY

The 1973 oil crisis and the subsequent escalation of energy prices dealt a particularly severe blow to the Atlantic Region because of its heavy reliance on imported oil for the generation of electricity. The cost of energy has not only driven up the cost of shelter, but has become a serious threat to the continued operation of regional energy-intensive industries, particularly in Nova Scotia, which next to Prince Edward Island has the highest electrical energy rates in Canada. In Nova Scotia, for example, electrical rates were raised 45% in 1977 and by a further 16-18% in 1978. Newfoundland and New Brunswick are not far below the other two Atlantic Provinces in electrical costs. As the price of imported oil increases and the national program to cushion the impact of oil price escalation phases down, the Atlantic Provinces in varying degrees face further prospects of spiralling costs.

Not only are existing regional industries being severely squeezed but the potential for economic development has been greatly limited. Particularly affected have been hopes of expanding local, export-based petroleum and petrochemical developments. While other factors were involved, the failure of the Shaheen oil refinery at Come by Chance, Newfoundland, and the resultant loss of 400 jobs give mute testimony of what happened.

The events of the past five years have not only dramatized the extent to which the industrialized world, Canada included, had become dependent on oil and gas as primary sources of energy but also brought into focus the inevitability that recoverable oil and gas reserves will some day be exhausted. As that day approaches, these commodities will become more and more expensive under pressure of demand from an expanding industrialized world and curtailment of supply by the producing countries. In a world situation of this kind, it is prudent for the Atlantic Region to use energy as frugally as possible while maximizing efforts to develop indigenous energy sources.

Growth in energy consumption per capita has historically been closely tied to growth in gross domestic product per capita. If the Atlantic Region is to close the economic gap with the rest of Canada it will need a faster growth rate in energy consumption than much of the rest of the country. This likelihood does not invalidate the objective of conservation.

National Energy Policy

In general, evolving national energy policy is aimed at achieving the following:

- (a) conservation,
- (b) adequacy of supply from a suitable mix of primary sources,
- (c) reduced dependency on foreign oil, and
- (d) development of non-conventional energy sources.

The manner in which these broad objectives will be attained will vary from region to region. In the Atlantic Region, for example, the home insulation support programs in Nova Scotia and Prince Edward Island are more generous than for the rest of the country, in recognition of their higher electricity rates; the Maritime Energy Corporation has been established to plan, finance, construct and operate new electric generating and distribution facilities, its first major undertaking being the Phase II Feasibility Study for Fundy Tidal Power; funds have been provided for the exploration of Nova Scotia's offshore coal reserves; the undersea power cable link to Prince Edward Island has been completed; an "Energy Conservation Sub-agreement" for Nova Scotia has been concluded with D.R.E.E., aimed at minimizing cost and ensuring security of supply of energy to business and industry; and funds have been promised to assist the development of the Gull Island hydro-electric project in Labrador, which was accorded a high priority at the First

Ministers' Conference in February, 1978. Provincial initiatives, some with federal input, include construction of coal-fired thermal plants and conversion of oil-fired plants to coal in Nova Scotia, construction of the Region's first nuclear plant in New Brunswick, and development of hydro-electric sites in New Brunswick, Nova Scotia and Newfoundland.

Future Prospects

In future years, the Atlantic Region will almost certainly have vast stores of additional available energy from new hydro-electric developments, the most promising being in Labrador and the Bay of Fundy; more coal-fired thermal plants in Nova Scotia; LNG from the Arctic Islands; oil and gas from the Continental Shelf; and additional nuclear power plants possibly fueled by uranium mined in the Region. For at least the next ten years, however, there is likely to be a continuing and probably increasing dependency on high-cost imported oil for electrical generation. The shift from a position of shortage to one of plenty is totally dependent on the adoption of an aggressive approach to developing these indigenous energy sources.

It is essential that the Region participate in the development of alternative sources of energy, especially those that are natural to the area, including the production of methanol from biomass, solar heating, wind-generated electricity, coal gasification, wood-burning, and the use of peat for electrical generation, which is now the subject of a \$100,000 federally financed feasibility study in New Brunswick. None of these individually is likely to make a massive contribution to total energy requirements but all of them together may be able to supplement conventional sources significantly, and must ultimately form part of man's energy production pattern. The concept of storing huge emergency crude oil supplies in the Region also merits consideration.

Many Labrador rivers, while having significant hydro-electric potential, are so remote from established North American markets as to make power transmission unattractive for many years. Early development of these remote rivers, however, would be warranted if energy-intensive industries willing to establish near the power can be attracted. Many such industries are now operating in parts of the world where limited and insecure energy supplies not only prevent plant expansion but threaten continued operation. The assurance of a long-term energy supply might significantly influence their capital investment decisions in favour of Labrador.

Offshore Petroleum

In its national energy strategy the Federal Government has adopted the overall objective of energy self-reliance, which can be measured by the degree to which Canada can move to a position of relative independence from imported oil from insecure sources. In essence, self-reliance means meeting Canadian energy needs from domestic resources to the greatest extent practicable. Achieving this goal will require very much larger annual expenditures on exploration and development of petroleum resources and transport systems that will bring them to market.

The proven and estimated petroleum reserves within the sea-bed of the Continental Shelf are very large and possibly have the potential to contribute significantly to the achievement of energy self-reliance. If proven in sufficient quantity, their commercial exploitation will be expensive, however, because of the severity of the operating environments. Many problems will require the development of new technologies. The problems to be encountered include year-round ice cover, drifting ice fields, icebergs, cold water, great water depth, severe sea-states, and adverse sea-bed conditions, each giving rise to a host of related concerns.

There is in the Atlantic Region a strong marine science base and embryonic ocean engineering community on which to build the technological capabilities required in the Region. Without a public determination to foster such growth in the Region, it will undoubtedly congregate elsewhere and conduct the extraction with a minimum transfer of skills and benefit to the Region. Council considers it essential that the regulatory environment for offshore petroleum activities be framed so as to ensure that maximum benefit accrues to the people of the Region, through development of the regional technological support capability and supply of goods and other services to the operations.

Recommendations

1. That improved energy conservation in the Region be achieved by measures including the following:
 - (a) upgrading the benefits under the home insulation support programs for New Brunswick and Newfoundland to ensure a level of home-owner participation near that for Nova Scotia and Prince Edward Island, and
 - (b) encouraging reduced consumption of electricity at time of peak system demand, by the development and application of an appropriate pricing mechanism, as provided for in the DREE-Nova Scotia "Energy Conservation Sub-agreement".
2. That dependence on burning petroleum for producing electricity in the Region be progressively reduced, while meeting growing energy demand to the extent feasible through a combination of inter-provincial power connections and indigenous energy sources such as coal reserves, peat, Fundy tidal power and other untapped hydro potential, and supplementary use of unconventional renewable energy sources (solar heat, wind power and forest biomass).

3. That Canada and the Region collaborate in negotiations with Quebec for distribution and sale of Labrador hydro-electric power to permit:
 - (a) purchase of assured supplies of power by the Maritimes at competitive rates that would relieve dependence on imported oil for electricity,
 - (b) recall of power to Newfoundland for domestic use, particularly to attract world-scale, power-intensive industries to Labrador, and
 - (c) progressive hydro-electric power development in Labrador for replacement of recalled power, sale to Canadian and U.S. users, and continued industrial growth in Newfoundland.
4. That higher national priority be attached to exploration for offshore and Arctic oil and gas via the Atlantic Region, through appropriate regulatory and fiscal measures, to enhance the prospect of long-term security of domestic petroleum supply for Eastern Canada.
5. That a regional capability be developed to provide maximum support for offshore oil and gas exploration, development and production, and that governing regulations be designed to ensure that private sector interests involved are obliged to conduct their operations in the Region in a manner consistent with the development strategy and aspirations of the province or provinces directly concerned.

PART III - CONSTRUCTION

Impact of Construction Industry

The construction industry is a significant element of the Atlantic Region's economy, although on a per capita basis the dollar volume is about 10% below the national level. Its significance is seen in the level of employment generated, in the order of 9-10% regionally as compared to 7% nationally. Fluctuations in demand for construction activity have therefore a greater impact on employment levels in the Atlantic Region than for the nation as a whole.

The level of construction activity varies widely throughout the year and from year to year. The industry is particularly vulnerable to serious downturns in the economy, such as have been experienced since the mid 1970's, which cause economic losses through under-utilization of manpower and equipment and erratic demand for construction supplies. To illustrate the problem in the Region, Saint John, New Brunswick, had practically full employment in the construction trades in the early 70's, but in 1978 was experiencing some 40% unemployment in these trades. Since the health of the construction industry depends directly on the pace of economic activity generally, it is not the purpose of this chapter to provide a catalogue of useful construction projects for the Region. As indicated earlier in this report, however, the strategy Council is proposing for the Region requires a heavy emphasis on new capital investment in the Region, particularly in the early half of the period, and a number of major construction projects could be suggested, for example, in energy and port developments. Generally, however, the chapter discusses the present state of the construction industry in the Region and the role of governments in influencing a desirable growth pattern.

Regional Investment

Table 40 shows the recent pattern of regional investment, which is expected to total some \$4.5 billion in 1978. Construction expenditures have accounted for approximately 63% of total annual regional investment over the period and machinery and equipment expenditures for 37%. The regional employment and related capital investment targets proposed in Chapter 9 will require a substantially increased growth rate in construction activity over the target period, especially in the first few years. This would result in an even greater proportion of total regional employment in the construction industry at least during the catch-up period.

Employment in Construction Industry

The construction industry is characterized by wide fluctuations in employment, with the annual variation in total national employment often being in excess of 100,000. The construction labour force is an easily entered, easily left pool of workers, centered upon a core of registered or certified tradesmen who shift between job sites, between contractors, or between new construction and maintenance work.¹ On average, more than half of the tradesmen or labourers are unemployed for some part of the year. Construction workers generally receive higher weekly wages than their counterparts in industry, and with receipt of unemployment insurance benefits and allowances for participating in Canada Manpower training programs can bring their annual income on average to approximately the level of industrial workers.

Effect of Government Activity

The activity of government has a significant impact on the level of construction in both its own investment decisions and the effect of its policies on decisions of the private sector. Business confidence, long-term interest rates

¹ Haythorne, G.V., "Construction and Inflation", Special Report for the Prices and Incomes Commission, Ottawa, Information Canada, 1973.

TABLE 40

Private and Public Investment
Atlantic Region - 1973-1978
(millions of dollars)

	CAPITAL EXPENDITURES			REPAIR EXPENDITURES			CAPITAL & REPAIR EXPEND.		
	Const.	Machinery & Equip.	Sub-total	Const.	Machinery & Equip.	Sub-total	Const.	Machinery & Equip.	Sub-total
1973	1484.1	735.2	2219.3	267.1	336.4	603.5	1751.2	1071.6	2822.8
1974	1804.4	844.7	2685.1	335.4	418.6	754.0	2175.8	1263.3	3439.1
1975	1974.2	838.6	2912.8	342.7	457.4	800.1	2316.9	1396.0	3712.9
1976	2204.9	953.6	3158.5	394.3	548.4	942.7	2599.2	1502.0	4101.2
1977	2052.8	914.4	2967.2	455.3	530.9	986.2	2508.1	1445.3	3953.3
1978	2254.0	1188.3	3442.3	495.8	554.8	1050.6	2749.8	1743.1	4492.9

NOTE: Actual expenditures to 1976, preliminary actual 1977, intentions 1978.

Source: Statistics Canada 61-205, 61-206, "Private and Public Investment in Canada".

and market demand dictate the timing and magnitude of private investments, and government influences such investments indirectly by modifying the climate for investment, for example, through fiscal policies. Government also directly affects private investment decisions by such means as offering grants and loan guarantees to potential new developments in specific areas.

Government at all levels, including Crown owned utilities and other Crown corporations account for more than 40% of total regional investment and construction expenditures. As the largest buyer of construction output, government is in a much better position to influence the pacing of construction activity directly than individual buyers in the private sector. Highway and street construction in particular, where virtually all output is for government, could be staged to eliminate wide variations in volume and maximize the length of the working season for a stable workforce. Planned highway and other projects, with a high equipment component, could be tendered in the fall for construction the next spring, thereby allowing successful contractors to retain skilled personnel for equipment overhaul and repair during the off-season.

Housing is a special case, in the Council's view, since much activity in housing depends on public funding made available through Central Mortgage and Housing Corporation. In the Atlantic Region, where income levels are considerably lower and costs generally higher than elsewhere in Canada, the housing industry is particularly vulnerable to federal housing policy adjustments, however appropriate they may be for major population centres of the country. In the Council's view, funding for at least low-income housing in the Region, including renovation of older housing, should be provided in adequate flow to ensure smooth growth irrespective of swings in other construction. There have been years in which funds allocated to the Region have not been fully used and have been transferred to other regions, and it is understood that the conditions imposed on use of the funding are under review. The Council is concerned that conditions to be applied in the Atlantic Region be tailored to the Region's situation so that available funding does not lapse in future.

A measure clearly within federal government discretion would be to abolish the federal sales tax on building materials used in the Atlantic Region. This suggestion has often been made as a counter-cyclical measure for Canada generally, but is of particular relevance to the present condition of the construction industry in the Atlantic Region and to its strategic importance in enabling the Region to close economic disparities with the rest of Canada. Such a regionally differentiated fiscal measure would be clear evidence of federal commitment to a reasonable objective of the Atlantic Region, as reflected in the development strategy Council is proposing. The benefits of abolishing the tax in the Region should not only be felt by consumers in the Region but would have a stimulative effect elsewhere in Canada as well, in view of the considerable leakage of construction investment from the Region in the form of purchases of construction materials from other regions of Canada (see below).

In 1974, the Economic Council of Canada found that "in no region did government expenditures on construction run counter to the total construction cycle over the 1951-70 period. Just as in Canada as a whole, government sector expenditures added to regional instability in construction."¹ The Economic Council concluded that "more stable growth in construction is desirable and should be widely adopted as an important and urgent objective". It also noted that "effective stabilization measures would need to take account of important regional differences". The Economic Council put forward a series of recommendations through which stabilization could be achieved. In essence, the underlying message was the need for long-term planning and close liaison by all affected parties.

Indeed long-term planning by government is essential to stabilize the growth of the construction industry and, with regional differences in mind, can be used to trigger major government expenditures when indicated downturns in the economy will reduce the level of private investment.

¹ Economic Council of Canada, "Towards More Stable Growth in Construction" Report of the Study on Cyclical Instability in Construction, Ottawa, Information Canada, 1974.

Leakages of Investment to Other Regions

In the Atlantic Region about 40% of the total value of construction is expended on materials, and approximately 70% of construction materials are purchased outside the Region. Machinery and equipment are usually supplied from outside the Region. Overall it is estimated that nearly 62% of all regional investment in construction, machinery and equipment is lost through external leakages, mainly to Ontario and Quebec. On this basis some \$2.8 billion out of the \$4.5 billion investment planned for the Atlantic Region in 1978 will leak to other regions.

Council is convinced that the amount of leakage, especially for construction materials, could be significantly reduced if all levels of government in the Region made a commitment to use regionally produced materials in their own projects to the greatest extent practicable, and encouraged the private sector to do likewise. For example, buildings could be designed in reinforced concrete rather than structural steel, and architects could be directed or requested to write specifications for non-structural building elements wherever possible on the basis of performance required, rather than naming widely known national products, thereby using transportation costs into the Region as a tariff favouring the competitive position of regional products. It is also possible and desirable for provincial governments to give a degree of preferential treatment to regional products used in construction, as now practised for government supply purchasing.

Protectionism

Council views with concern both the move by Quebec to bar construction workers from other provinces and the threat by some provinces of retaliation. While the threat of retaliation is understandable in the circumstances, the state of the economy of the Atlantic Region and of its construction industry in particular is such that at present many

construction workers frequently need to seek work outside their home provinces, as they often have had to do in the past. The Council has suggested earlier in this report that the Region has suffered in the past from government policies which favoured a draining of manpower from the Region. Council recommendations throughout this report are designed to replace such policies with development programs which will enable people of the Region to find employment in the Region. Its view of the future of Canada does not extend, however, to interference with the freedom of the individual citizen to make his own choice to find temporary, or even permanent, employment elsewhere in the country on his own responsibility.

Recommendations

1. That federal commitment to the Council's development strategy for the Atlantic Region be demonstrated by the early adoption of measures to stimulate substantial growth in new capital investment in the Atlantic Region, particularly in the form of major construction projects, in the early half of the 1978-91 period to achieve the economic performance targets specified for the full period.
2. That close liaison be pursued between federal and provincial/municipal levels of government and management and labour to help establish a sustainable growth pattern for the construction industry in the Region.
3. That the federal sales tax on building materials be abolished in the Atlantic Region as an immediate measure to help stimulate much-needed construction activity.

4. That governments award contracts in the fall for the following year's work for projects with a high equipment component, to permit contractors to retain skilled personnel for equipment overhaul and repair during the off-season.
5. That funding for low-income housing, including renovation of older housing, be provided in adequate flow to the Atlantic Region to ensure smooth growth, irrespective of swings in other construction, accompanied by measures to ensure full utilization of available funding.
6. That encouragement be given for the selection of building project designs that emphasize energy efficiency and use of regionally produced materials.

CHAPTER 9

POPULATION PROJECTIONS AND ECONOMIC TARGETS

The Council has sought in this report to assess the economic condition and potential of Atlantic Canada and in doing so has found a continuing deterioration that warrants a corrective strategy involving both extraordinary economic measures and national and regional self-examination. It has found also that the potential for recovery exists, but is dependent on major policy change. The Council believes that change on the scale required for the Region is negotiable perhaps only when the Canadian federation is itself undergoing fundamental review, and that this report will help provide a useful regional focus for discussions already getting under way.

Naturally the matter arises of a satisfactory set of economic performance targets for the period of the future under consideration. It is to be regarded first of all as a recovery period, leading eventually to economic health on a par with the rest of the nation within reasonable tolerances.

It will have been noted that the Council has not attempted to quantify economic targets sector by sector and sub-sector, but rather to carry its recovery themes through various categories of economic activity to indicate where, in its view, corrective measures are most wanting. Even the most deliberate attempts to quantify potential growth individually by sector or sub-sector at the strategic level of consideration would likely fail to grasp the interplay of the myriad of forces that would influence the course that the regional economy might take. The Council has preferred to set targets derived rather from the relative scale of the task facing the Region, to fulfil the reasonable economic expectations of the Canadian citizens who comprise the population of the Region as projected over the period to 1991.

Since the economic ills of the Region have been identified by measures of economic disparity, the targets are derived in similar terms so that progress toward economic recovery can be carefully monitored. If both the strategy and the targets are accepted, achievement will depend on the intensity with which the strategy is pursued, with modifications in time as may be appropriate.

Population Projections

The Council commissioned a professional study of demographic projections for the Region which fortunately, though not without minor delay, was able to take into account recently processed data from the 1976 census. In presenting the gist of these findings the Council is aware that projections of current trends do not constitute the future, nor can they allow fully for good and bad turns of fortune or for the reactions of people within and outside the Region to the results of strenuous development effort.

The population of the Region for the 1951 to 1976 period by five-year intervals is shown in Table 41, as are also projected levels to 1991, based on past trends (up to 1976) in fertility rates, death rates and rates of migration. The rate of growth of population is expected to slow from 6.1% over the 1971-76 period to 4.8% over 1986-91.

The 0-14 age group is expected to continue to decline as a proportion of total population, while the 15-64 age group, from which the bulk of the labour force is drawn, will increase its share as a result of high birth rates in the past. Those aged 65 and over will show only a slight increase by 1991. The total dependency ratio (numbers in the two dependent age groups in relation to the numbers in the 15-65 age group) will decline, indicating an easing of the burden on the main working-age group in the forecast period. Details of the population projection by age group and by provinces are shown in Table 42.

TABLE 41

Population and Growth Rates,
Five-Year Intervals 1951 to 1975 with Projections to 1991
Atlantic Provinces

Year	Population (000's)	Five-Year Rates of Growth %
1951	1,618.1	-
1956	1,763.7	9.00
1961	1,897.4	7.58
1966	1,974.7	4.07
1971	2,057.3	4.18
1976	2,181.8	6.05
1981	2,298.8	5.36
1986	2,421.7	5.35
1991	2,538.2	4.81

TABLE 42

Distribution of Population by Selected Age Group -
Atlantic Provinces, 1976 with Projections for 1981, 1986 and 1991

Year	0-14 000's	% of Total	15-64 000's	% of Total	65 + 000's	% of Total	Total 000's
<u>Newfoundland</u>							
1976	187.8	33.7	333.4	60.0	36.5	6.5	557.7
1981	179.8	30.3	370.2	62.5	42.6	7.2	592.6
1986	180.2	28.6	401.0	63.7	48.2	7.7	629.4
1991	184.6	27.8	427.9	64.3	52.5	7.9	665.0
<u>Prince Edward Island</u>							
1976	33.2	28.1	71.8	60.7	13.2	11.2	118.2
1981	30.4	25.0	76.6	62.9	14.7	12.1	121.7
1986	29.9	23.7	80.3	63.7	15.8	12.5	126.0
1991	29.6	22.6	84.2	64.4	16.9	12.9	130.7
<u>Nova Scotia</u>							
1976	223.8	27.0	524.1	63.3	80.7	9.7	828.6
1981	205.1	23.7	568.6	65.7	91.5	10.6	865.2
1986	203.2	22.5	597.7	66.3	101.2	11.2	902.1
1991	203.5	21.8	623.6	66.7	108.4	11.6	935.5
<u>New Brunswick</u>							
1976	193.1	28.5	423.1	62.5	61.1	9.0	677.3
1981	184.1	25.6	466.5	64.9	68.9	9.6	719.5
1986	188.3	24.6	499.5	65.4	76.3	10.0	764.1
1991	190.9	23.7	532.6	66.0	83.6	10.4	807.1
<u>Atlantic Region</u>							
1976	637.9	29.2	1,352.4	62.0	191.5	8.8	2,181.8
1981	599.4	26.1	1,481.9	64.5	217.7	9.5	2,299.0
1986	601.6	24.8	1,578.5	65.2	241.5	10.0	2,421.6
1991	608.6	24.0	1,668.3	65.7	261.4	10.3	2,538.3

A noticeable feature of the projected population is a discernible aging pattern that occurs as the children of the post-war baby boom pass through the age groups as a conspicuous wave. While 64% of the population was less than 35 years of age in 1976, by 1991 this proportion will have dropped to 57.5%. Correspondingly, the proportion 35 years and over will have risen from 36% to 42.5%.

Labour Participation Rates

The percentage of those in the age group 15 years and over who are working or looking for work is called the labour participation rate. Over the seventies this rate has been rising, both in Canada and the Region, due to a rise in the female participation rate which more than offsets a declining male rate.

The regional participation rate for males and females combined, however, has continuously lagged behind the national rate, reflecting the comparative lack of job opportunities in the Region as already documented elsewhere in this report. A projection of past trends shows what these rates are likely to be in the future if conditions remain the same. These figures are given in Table 43.

Labour Force

Applying the projected participation rate to projected population of working age produces a projected labour force for the Region of 1,087,000 by 1991. As a 1991 target the Council feels that the Region should aim to have its unemployment rate reduced to 5% or lower by that time. Historical relationships indicate that, if a 5% unemployment rate is achieved in the Region, a lower rate could be expected in Canada as a whole and for some parts of Canada even lower. It is the Council's view that such past relationships are unsatisfactory and must be changed over time, if the Region is to assume, and be accorded, more active roles in the economic life of the nation.

TABLE 43

Labour Force Statistics, Actual
1976 and Projected 1981, 1986 and 1991
Atlantic Region

Year	Population of Labour Force Age		Participation Rate	Labour Force
	(000's)		%	(000's)
1976	Male	769.1	68.4	526.0
	Female	775.0	37.7	292.0
	Total	1,544.1	53.0	818.0
1981	Male	842.6	69.6	586.8
	Female	856.6	39.1	334.7
	Total	1,699.2	54.2	921.5
1986	Male	899.4	70.0	629.2
	Female	920.7	41.4	381.3
	Total	1,820.0	55.5	1,010.2
1991	Male	951.3	69.2	658.3
	Female	978.2	43.8	428.4
	Total	1,929.5	56.3	1,086.8

At a 5% rate of unemployment for the Region by 1991, the number of net additional jobs needed would be 304,000, or 101,000 per five-year period (1976-1981, 1981-1986 and 1986-1991). Since approximately 100,000 jobs were created in the Region during the 1971-76 period, it would appear that the task in job creation for each five-year period to 1991 would be no greater than to maintain a rate already achieved. Job creation at this rate would bring the regional unemployment rate to 5% by 1991 at labour participation rates neutrally projected.

Net additional jobs of 304,000 between 1976 and 1991 would be an acceptable target only if continuation or marginal improvement of the existing low participation rates were acceptable. If the target for the Region should be economic parity with the rest of Canada, as the Council believes, the labour force participation rate for the Region should also reach parity, or better, and the task of job creation, therefore, is considerably greater than 304,000 additional jobs between 1976 and 1991.

A target should be set sufficiently high to offer a challenge but not so high as to be unattainable. The Council believes it is possible, if a sufficient commitment is made to its strategy for development of the Region, to exceed the 304,000 additional jobs by 1991, and regards that number merely reflecting present economic disparities improved to a 5% unemployment rate. Enabling the Region to present the appearance of a reasonable unemployment level, at current or projected participation rates, however, would fall considerably short of the aims of the development strategy recommended.

While the Council would wish to see the participation rates of the Region rise to those of the nation by 1991, which by then should be even higher than they are now, it is realized that this may be an unrealistic target in the time frame. It would require about 450,000 jobs in 15 years, or 150,000 additional jobs every five years, a 60% addition to the 1976 employment level of 729,000. In the Council's view, it would be within reasonable tolerances for the Region to meet the present national participation rates by 1991, which would require 403,000 additional jobs. The rate of job creation in 1977 and 1978, moreover, is already considerably below the target rate, and hence the target recently struck by the Atlantic Provinces Economic Council (APEC) may be even more realistic at 353,000. In round figures, therefore, the Council suggests a target

range of 350-400,000 additional jobs between 1976 and 1991, based on present population projections, as reasonable limits within which success in job creation to national standards for the Region might be measured.

Table 44 shows for comparison the labour participation rates required for 304,000 additional jobs (present level of disparity improved to a 5% unemployment rate), 350,000 additional jobs and 403,000 additional jobs, all at a 5% unemployment rate, by 1991.

Tables 45 and 46 assume an even progression towards the 5% unemployment rate by 1991 and show high (upper end of the acceptable range - 403,000 additional jobs) and low (maintenance of current disparity levels at 304,000 additional jobs) projections of labour force, employment and unemployment at the end of each five-year period.

While evenness of attainment in each of the five-year periods is unlikely and has been applied only for mathematical simplicity, these tables indicate the magnitude of the job imposed by a development strategy aimed at reaching present national participation rates by 1991, in comparison with maintaining the present disparity between the Region and Canada in labour participation rates.

Provincial Breakdown

Table 47 shows a breakdown by province to achieve the additional jobs projected under the high and low assumptions as defined in Tables 45 and 46. Obviously, the effort in Newfoundland would have to be stepped up significantly, since about 30% of the additional jobs would be needed there if a 5% unemployment rate is to be attained in all four provinces.

Employment by Sector

Chapter 2 included data on sector performance in employment and pointed to a decline of employment in the primary sector and rapid growth in the service sector since 1970.

TABLE 44

Net Job Creation Needed Between 1976 and 1991
At Varying Participation Rates, Atlantic Region

	Projected on Past Trends to 1991	A.P.E.C. Target (a)	Current National Participation Rates
Participation Rates	Male - 69% Female - 44%	Male - 76.5% Female - 45.0%	Male - 78% Female - 46%
Net Job Creation at 5% Unemploy- ment	304,000	350,000	403,000

(a) The A.P.E.C. rate has been recalculated using the 1990 A.P.E.C. labour force extended to 1991, and our estimates of labour force age group of 15 years of age and over.

TABLE 45

Range in Labour Force Characteristics Consistent
With Even Attainment of 5% Unemployment Rate by 1991
Under High (for 403,000 (net) additional jobs)
And Low (for 304,000 (net) additional jobs)
Assumptions of Participation Rates, Atlantic Region

	1976	1981		1986		1991	
		Low	High	Low	High	Low	High
Labour Force (000's)	818	907	942	997	1,067	1,087	1,192
Employment (000's)	729	830	863	931	997	1,033	1,132
Unemployment (000's)	89	77	79	66	70	54	60
Unemployment Rate (%)	10.9	8.5	8.4	6.6	6.6	5.0	5.0

TABLE 46

Growth in Labour Force Variables to Attain 5% Unemployment

Under High (for 403,000 (net) additional jobs)

And Low (for 304,000 (net) additional jobs)

Participation Rate Assumptions, Atlantic Region

	1976-81		1981-86		1986-91		1976-91	
	Low	High	Low	High	Low	High	Low	High
Labour Force (000's)	89	125	90	125	90	125	269	375
Employment (000's)	101	134	101	134	102	135	304	403
Unemployment (000's)	-12	-10	-11	-9	-12	-9	-35	-28
Unemployment Rate (% points)	-2.5	-2.6	-1.9	-1.8	-1.6	-1.6	-6.0	-6.0

TABLE 47

Job Creation by Province

Using High (for 403,000 (net) additional jobs)

And Low (for 304,000 (net) additional jobs)

Participation Rate Assumptions for the 1976-91 Period

Compared to 1971-76 Performance

	1971-76		1976-91			
	Number (000)	%	Low (000)	%	High (000)	%
Newfoundland	23	22.8	82	27	125	31
Prince Edward Island	6	5.9	12	4	16	4
Nova Scotia	38	37.6	113	37	133	33
New Brunswick	34	33.7	97	32	129	32
Atlantic Region	101	100.0	304	100	403	100

There are indications that the decline in the primary sector might be slowing down. Over the next 10-15 years a number of new mines are expected to open, and prospects in the fishery are promising, although the catch could perhaps be stepped up considerably without a corresponding increase in job creation in the fishing boat.

If per capita incomes continue to increase and the pace of urbanization continues, it is likely that the service sector's share of employment will continue to expand. Since its growth in the Atlantic Region has been a function of growth in dependency on transfer payments, current fiscal restraints already apparent will likely moderate, or even reverse, the rate of growth in the service sector unless new activity in other sectors make up for the loss.

Table 48 gives a sectoral breakdown of actual employment in 1976 compared to employment projections for 1991 based on the high and low assumptions for participation rates defined earlier. These additional assumptions should be taken into account:

1. That developments in the primary sector will produce from 9,000 to 11,000 jobs by 1991;
2. That support industries will decline as a proportion to about 15% of total employment;
3. That the service industries will rise at a more moderate pace to 63-64% of total employment; and
4. That manufacturing will have to provide the additional jobs required to achieve a 5% unemployment rate.

The indication is that manufacturing would have to increase by 50,000 to 66,000 jobs by 1991 if the Council's target range is to be met. This would require faster rates of growth in job creation through manufacturing than has been the experience in the seventies.

TABLE 48

Employment by Sector, Atlantic Region -
Actual for 1976, Projections for 1991
Using High (for 403,000 (net) additional jobs) and
Low (for 304,000 (net) additional jobs)
Participation Rate Assumptions

SECTOR	1 9 7 6		1 9 9 1			
	No.	%	Low	%	High	%
Primary	61	8.4	70	6.8	72	6.4
Manufacturing	100	13.7	150	14.6	166	14.8
Support	137	19.8	160	15.5	167	14.8
Services	431	59.1	650	63.1	725	64.0
Total	729	100.0	1,030	100.0	1,130	100.0

Degree of Dependence

As outlined in Chapter 1 the Atlantic Region has become increasingly reliant on the Federal treasury for financial aid to maintain an acceptable level of services and standard of living in the Region. This comes in a myriad of ways, including short-term job creation, but mainly through fiscal transfers, such as equalization payments to provincial governments and transfers to individuals directly. The flow of these transfers can vary according to economic conditions although the pattern over the seventies almost invariably has been upward.

Any realization of new economic roles for the Region and diversification of its resource usage should have the effect of reducing the Region's degree of dependence on the Federal treasury and indeed of contributing to the national good. The Council regards it as a reasonable target for its strategy for the Region that its degree of dependence should be reduced by 1991 to full parity with the national average. This would mean a Region able to carry its own weight and to contribute its share to the Canadian nation. Should substantial revenues to the provinces begin to accrue during the period from the longer term development opportunities in frontier resources and marine activity, the net effect on provincial government fiscal capability for the initial period will not all be positive because the new revenue sources would be displacing equalization grants. The spin-off effects of new economic activity, however, would help to improve provincial government revenues and the general economy from the start.

Personal Income

The Council considers it unnecessary in a federated country concerned about its citizens in all of its parts that one region should be left with the prospect of waiting several generations, if not centuries, to close the personal income gap with the rest of the country. As with degree of financial dependency, the Council believes that the development strategy

for the Region should be geared to a target of reaching at least 90% of the average for the rest of the country by 1991, and for attaining the national average itself and helping to improve upon it during the nineties.

Capital Investment

Since the Region during the seventies has fallen disquietingly behind its per capita share of new capital investment, and since new capital investment is a harbinger of future employment, the implications for the Atlantic Region are that it will need capital investments substantially beyond the national level during the early eighties if it is to reach the job creation targets Council has proposed for 1991. A full ten percent of the high levels of investment needed in Canada by 1991 will have to take place in the Region if these targets are to be met.

Conclusion

The Council recognizes that the task imposed by the targets specified in this chapter will be a difficult one, attainable only by an unprecedented national commitment matched by extraordinary endeavour within the Region. Its development strategy has been designed in anticipation of both.

In the Council's view, formed as it is from much discussion with business, labour and professional leaders of the Region as well as from statistical evidence, the economic condition of the Region warrants unprecedented measures and indeed a re-definition and renewal of the national purpose. Particularly crucial for the Region is the reordering of national priorities for large capital projects. If Canada is still a country needing a major national project under way at all times, as once asserted by a Canadian statesman, the Council suggests that the Atlantic Region itself is now a suitable candidate. An extraordinary response from the Region, in the Council's view, is a distinct possibility with the conversion of costly, frustrating idleness into productive effort.

CHAPTER 10

ATTITUDES AND PERCEPTIONS

It is the Council's view that economic development occurs first in the minds of people, and that more efficient production and changes in economic structure to produce more sophisticated output are but reflections of a people's heightened perceptions of their condition and opportunity. Numerous peoples (e.g., in Holland, Japan, Israel, Switzerland) have shown that a rich endowment of physical resources is not the most basic requirement for the cultivation of human potential. It has been characteristic of Atlantic Canada that such structural economic changes as have occurred have been largely imposed from without rather than generated from within. In their state of dependence on the Canadian taxpayer at large and their heavy reliance for earnings on a relatively bountiful but poorly cultivated resource base, the people of the Atlantic Region are unlikely to experience acceleration in economic development unless they exercise the will and learn the skills to find a better combination of the political and economic factors at their disposal.

Regional Economic Disparities

Despite the statistical evidence in Chapter 1, the Council acknowledges that in human terms a strong case can be made for the assertion that the people of the Atlantic Region "never had it so good". By one means or another, material and health needs of people are being attended to as never before. Despite physical and psychological isolation from the rest of Canada, the Region cannot complain of being ignored while it is receiving federal assistance towards gross regional expenditure at a rate nearly three times the average for the other provinces. The Region has evidently been successful in its demands for financial compensation for the damage wrought by a national economy on a once sturdy regional economy. In that sense, however, the Council feels that the Region is losing by winning.

In the foregoing chapters the Council has recommended many measures, some of them drastic, that might help the Atlantic Region reverse and correct its slide into dependency. Many of them are for the attention of governments, since governments provide a focus for collective action. Although many of these measures involve finance, the Council's view of its strategy is that it is not inherently a financial one. Some of the most effective means of economic remedy for the Region lie in the hands and minds of the people of the Region themselves. Governments alone cannot resolve the problems of the Region, for in the final analysis the citizens determine the levels of development that will be achieved.

Political Will

To the extent that political action in a democratic society is a reflection of the popular will, it is essential that its elected representatives be adequately instructed rather than left vaguely to their own perceptions of prevailing desires. One observer noted of a regional situation in Canada:

"The people have only a hazy conception of the state; it is viewed primarily as a source of infinite wealth. When riches are scattered among the people, the people love the government; when the state is stingy, the people hate it. They become ugly and rebellious."¹

As vote-seekers may be found to pander to such a view of the state, so it is possible to find those who would be responsive to a more constructive view. Consensus among an informed and concerned citizenry has awesome power. Formulation and expression of it are crucial to its effective use.

¹ Who Knows? Canada Newstart Program, Department of Regional Economic Expansion, July, 1973, p. 18.

Problem-Solving

In Atlantic Region Community "A" lobster fishermen required storage facilities. By usual procedure a spokesman approached a community leader, clearly well educated and supposedly with connections, to request that government provide a storage pound as a matter of urgency, since the lobster season had already started. Rather new in the role, the person approached asked for details of what was required. The spokesman for the fishermen, unsure of specifications that would satisfy them, said that he did not know but that surely someone in government could figure it out. Distressed that the problem itself was not understood, though undoubtedly it existed, the new "leader" asked for a meeting with the fishermen. There it became apparent that the problem was not one of obtaining government assistance but one of defining size, materials and location for the lobster pound. Once they had defined the problem in these terms, the fishermen decided they could build the lobster pound themselves - quickly, as the season had already started.

Approximately 35% of the total forest industry in Sweden is accounted for by a co-operative of the owners of 130,000 private woodlots averaging 100 acres each. The co-operative, largely since World War II, has constructed and operates ten pulp mills, six paper mills, 53 sawmills, five chip-board mills and three prefabricated housing plants in Sweden. When growth of the industry was restricted by availability of timber, the co-operative formed a Forest Owners Investment Corporation to market wood and wood products, to acquire other companies, and to market forest machinery and equipment. The Corporation sells a full range of products from axes to paper mills, much of which is produced in its own plants.

On Business Creation

At its meeting in Charlottetown on October 26, 1976, the Honourable John Maloney, Minister of Development, Prince

Edward Island, was invited to speak to the Council and the following is a condensed report of a section of his remarks:

Dr. Maloney felt that the conventional wisdom about economies of scale and other difficulties generally perceived in the way of creating industry should be seriously questioned, and that the biggest drawback to development in the Maritimes was the attitude of people rather than a lack of money and brains. It seemed to him that people in the Maritimes were attuned to failure, with the village idiot too often at the microphone. The media especially appeared duty-bound to look for reasons why every new development should fail.

Stimulation of small businesses was of first importance since large businesses grew out of smaller ones, particularly in manufacturing. The principle of economy of scale did not invariably apply. Big companies geared to massive production of standard-run items could not easily cope with fast style changes, odd sizes, and custom specifications in many items. Demand for most products levelled off and declined as tastes changed and invention created anew. There were always new opportunities for small business, many not even wanted by big business. For an intelligent approach to development, in Dr. Maloney's view, one had to start with what was at hand: the soil, the geology, the resources, old reports, knowledge of what succeeded elsewhere, what existing industry needed, what it offered as spin-off, what the expansion possibilities were, and what one had to advertise. He did not believe such concepts were difficult to grasp.

Education and Training

The Council did not attempt a systematic review of education and training systems in the Atlantic Region. Since its concern was less with numbers than with quality, perhaps it would have been inappropriate for a federally constituted body to do so. Some of its specific recommendations, as will have been noted, are concerned with collaborative efforts between the provinces to provide within the Region joint educational facilities to upgrade the skills of people in the resource industries to professional status.

Since the correlation between economic achievement and general educational attainment of the work force is well established, the Council enquired whether educational attainment of the Atlantic Region's population of work force age was seriously deficient in comparison with national averages. Table 49 indicates that the more highly educated participate in the work force in the Region at least as well as in the country as a whole, while the least educated participate well below the Canadian average. It also indicates that approximately 30% of the Region's work force has no more than eight years of schooling, compared to approximately 24% for Canada as a whole. Those with post-secondary certificate or higher educational attainment constitute about 14% of the Region's work force, compared to about 19% for Canada. Since the national figures include the Region's figures, the comparison between the Region and the rest of Canada is somewhat less favourable than these percentages indicate. In the Council's view this is a matter for serious concern, whether indicative or not of a brain drain, since most of the work force may well regard themselves past the stage in life in which general education programs are available, or even useful, to them.

Skills training programs are generally available by joint effort of the provinces and Canada Manpower, and adult education courses of general interest are provided in many centres. The gap in general educational attainment, however, is a serious handicap for the Region that is not acknowledged on the economic playing field, and it is a matter for the working people of the Region to decide whether they play with

TABLE 49

Estimates of Population of Labour Force Age and Participation Rates
By Education Levels - 1977 Atlantic Provinces,

Ontario and Canada

	NFLD.		P.E.I.		N.S.		N.B.		ONT.		CANADA	
	Pop. (000)	Part. %	Pop. (000)	Part. %	Pop. (000)	Part. %	Pop. (000)	Part. %	Pop. (000)	Part. %	Pop. (000)	Part. %
Total	378	50.6	88	57.3	603	55.3	498	53.8	6,278	64.4	17,250	61.5
0-8 Years	133	34.7	24	45.4	155	40.4	163	39.8	1,358	47.9	4,216	44.7
High School (a)	165	51.5	43	58.1	297	55.9	225	56.8	3,183	65.5	8,519	63.2
Some Post Secondary	26	65.0	8	64.6	42	63.3	32	60.2	609	70.9	1,553	68.9
Post Secondary Certificate or Diploma	41	78.1	8	67.1	23	66.4	49	67.6	596	73.2	1,700	72.8
University Degree	14	85.9	4	83.7	40	80.9	28	78.7	532	82.4	1,262	82.6

Source: Statistics Canada, "The Labour Force", December, 1977.

(a) Includes persons who have either completed or had some secondary education, but have not had any post-secondary education.

the disadvantage or compensate for it individually by seeking general educational improvement. In the Council's view what would be most useful for many is general training for an understanding approach to problem-solving in the milieu of the adult citizen, particularly for application in on-the-job situations.

Of equal or even greater importance in the long run is the quality of preparation afforded in the elementary and high schools of the Region for the future work force. If students leaving school have not been exposed to problems involving monthly purchase plans, household mortgages, hypothesizing simple business ventures, the role of the labour union, group dynamics, statistical evidence, managing personal accounts, and other practical insights by no means all mathematical, the school system, in the Council's view, is highly deficient.

Community and Area Development

In Atlantic Region Community "B" a construction worker who could find employment only on a periodic basis by commuting some distance to a city became involved in a community awareness experiment. The project had elements of adult education, clean-up campaign, community analysis, local resource inventory, and assessment of job creation possibilities in the community. It was conducted at virtually no cost except for the adult education component. One of the new businesses now operating in a much changed community is a construction company owned by the former construction worker and doing business in many communities.

Regional planning has been compulsory in Norway since 1966, although regional plans have not yet been fully completed. Two main principles are being applied: first, the involvement of the population at both the community and regional levels in designing arrangements for full employment within the human and resource potential available in each region; and, second,

co-ordinated management of the programs of all government departments available to the region. While Norway has had an oil boom in recent years, its shipbuilding and fishing activities have been in recession. Nevertheless, there has been a noticeable strengthening of regional activity and population in relation to the major cities since 1970.

Ourselves

Of all the provinces of Canada, with the possible exception of Quebec, the Atlantic Provinces have evolved with the least dilution of the basic population mix which they had a hundred or more years ago. The various stocks have for the most part been thinned repeatedly by emigration but never overwhelmed nor even slightly jostled by immigration, as all but few scattered individuals of the millions of immigrants to Canada have passed the Region by to seek opportunities as advertised in the larger provinces. Attitudes about what was still British North America a hundred years ago understandably die harder in Atlantic Canada than elsewhere in the country. The people who stayed and propagated in the Region have had difficulty coming to terms with the Canadian reality at all stages of Canadian history since the opening up of the prairies, and they are perhaps least conscious as a regional group of the modern Canadian reality.

It appears to the Council that the disturbing questions being raised about the nature and future of Canada have a perplexity for people of the Atlantic Region that differs markedly from the perplexities of other Canadians, as theirs undoubtedly differ among themselves. Some of the people of Quebec appear to have resolved their perplexity by rejecting the Canadian reality. In Western Canada, it seems, there is a resolve to transform it. In Atlantic Canada there is curiously an apparent fear of losing what perhaps never was, or what has been lost for a long time. The Council suggests to the people of the Region that we come to terms first with our own reality and seek with other Canadians to create a new Canadian one in which all may be more at ease.

